UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

☑ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For Quarterly Period Ended June 30, 2009
or
☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition Period from __________ to __________

Commission File Number 1-11533

Parkway Properties, Inc.
(Exact name of registrant as specified in its charter)

Maryland	**74-2123597**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

One Jackson Place Suite 1000
188 East Capitol Street
P.O. Box 24647
Jackson, Mississippi 39225-4647
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code **(601) 948-4091**
Registrant's web site **www.pky.com**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ☐ No ☐* (*Registrant is not subject to the requirements of Rule 405 of Regulation S-T at this time.)

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☑ Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☑

21,621,052 shares of Common Stock, $.001 par value, were outstanding at August 3, 2009.

PARKWAY PROPERTIES, INC.

FORM 10-Q

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PARKWAY PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share data)

	June 30 2009 (Unaudited)	December 31 2008
Assets		
Real estate related investments:		
Office and parking properties	$ 1,721,367	$ 1,737,549
Office property held for sale	6,824	-
Real estate development	609	609
Accumulated depreciation	(309,324)	(282,919)
	1,419,476	1,455,239
Land available for sale	750	750
Mortgage loan	7,812	7,519
Investment in unconsolidated joint ventures	11,326	11,057
	1,439,364	1,474,565
Rents receivable and other assets	109,469	118,512
Intangible assets, net	71,121	79,460
Cash and cash equivalents	28,467	15,318
	$ 1,648,421	$ 1,687,855
Liabilities		
Notes payable to banks	$ 100,000	$ 185,940
Mortgage notes payable	859,704	869,581
Accounts payable and other liabilities	86,487	98,894
	1,046,191	1,154,415
Equity		
Parkway Properties, Inc. shareholders' equity		
8.00% Series D Preferred stock, $.001 par value, 2,400,000 shares authorized, issued and outstanding	57,976	57,976
Common stock, $.001 par value, 67,600,000 shares authorized, 21,621,052 and 15,253,396 shares issued and outstanding in 2009 and 2008, respectively	22	15
Common stock held in trust, at cost, 71,255 and 85,300 shares in 2009 and 2008, respectively	(2,399)	(2,895)
Additional paid-in capital	514,100	428,367
Accumulated other comprehensive loss	(5,547)	(7,728)
Accumulated deficit	(83,770)	(69,487)
Total Parkway Properties, Inc. shareholders' equity	480,382	406,248
Noncontrolling interest - real estate partnerships	121,848	127,192
Total equity	602,230	533,440
	$ 1,648,421	$ 1,687,855

See notes to consolidated financial statements.

PARKWAY PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Three Months Ended June 30	
	2009	2008
	(Unaudited)	
Revenues		
Income from office and parking properties	$ 66,113	$ 65,376
Management company income	731	410
Total revenues	66,844	65,786
Expenses		
Property operating expenses	31,381	31,173
Depreciation and amortization	21,720	22,443
Management company expenses	632	432
General and administrative	1,369	2,092
Total expenses	55,102	56,140
Operating income	11,742	9,646
Other income and expenses		
Interest and other income	309	306
Equity in earnings of unconsolidated joint ventures	227	289
Gain on involuntary conversion	279	-
Gain on sale of real estate	540	-
Interest expense	(14,050)	(14,972)
Loss from continuing operations	(953)	(4,731)
Discontinued operations:		
Income from discontinued operations	236	732
Net loss	(717)	(3,999)
Net loss attributable to noncontrolling interest - real estate partnerships	1,637	2,063
Net income (loss) for Parkway Properties, Inc.	920	(1,936)
Change in market value of interest rate swaps	1,809	1,936
Comprehensive income	$ 2,729	$ -
Net income (loss) for Parkway Properties, Inc.	$ 920	$ (1,936)
Dividends on preferred stock	(1,200)	(1,200)
Net loss available to common stockholders	$ (280)	$ (3,136)
Net loss per common share:		
Basic:		
Loss from continuing operations attributable to Parkway Properties, Inc.	$ (0.02)	$ (0.26)
Discontinued operations	0.01	0.05
Net loss attributable to Parkway Properties, Inc.	$ (0.01)	$ (0.21)
Diluted:		
Loss from continuing operations attributable to Parkway Properties, Inc.	$ (0.02)	$ (0.26)
Discontinued operations	0.01	0.05
Net loss attributable to Parkway Properties, Inc.	$ (0.01)	$ (0.21)
Dividends per common share	$ 0.325	$ 0.65
Weighted average shares outstanding:		
Basic	19,457	15,024
Diluted	19,457	15,024

See notes to consolidated financial statements.

PARKWAY PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	Six Months Ended June 30	
	2009	**2008**
	(Unaudited)	
Revenues		
Income from office and parking properties	$ 133,483	$ 127,608
Management company income	1,146	907
Total revenues	134,629	128,515
Expenses		
Property operating expense	65,102	61,032
Depreciation and amortization	45,276	43,649
Management company expenses	1,133	921
General and administrative	2,951	4,388
Total expenses	114,462	109,990
Operating income	20,167	18,525
Other income and expenses		
Interest and other income	611	674
Equity in earnings of unconsolidated joint ventures	427	547
Gain on involuntary conversion	742	-
Gain on sale of real estate	470	-
Interest expense	(28,101)	(30,110)
Loss from continuing operations	(5,684)	(10,364)
Discontinued operations:		
Income from discontinued operations	414	1,283
Net loss	(5,270)	(9,081)
Net loss attributable to noncontrolling interest - real estate partnerships	5,401	4,550
Net income (loss) for Parkway Properties, Inc.	131	(4,531)
Change in market value of interest rate swaps	2,181	829
Comprehensive income (loss)	$ 2,312	$ (3,702)
Net income (loss) for Parkway Properties, Inc.	$ 131	$ (4,531)
Dividends on preferred stock	(2,400)	(2,400)
Net loss available to common stockholders	$ (2,269)	$ (6,931)
Net loss per common share:		
Basic:		
Loss from continuing operations attributable to Parkway Properties, Inc.	$ (0.15)	$ (0.55)
Discontinued operations	0.02	0.09
Net loss attributable to Parkway Properties, Inc.	$ (0.13)	$ (0.46)
Diluted:		
Loss from continuing operations attributable to Parkway Properties, Inc.	$ (0.15)	$ (0.55)
Discontinued operations	0.02	0.09
Net loss attributable to Parkway Properties, Inc.	$ (0.13)	$ (0.46)
Dividends per common share	$ 0.65	$ 1.30
Weighted average shares outstanding:		
Basic	17,262	15,013
Diluted	17,262	15,013

See notes to consolidated financial statements.

PARKWAY PROPERTIES, INC.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(In thousands, except share and per share data)
(Unaudited)

	Parkway Properties, Inc. Shareholders								
	Preferred Stock	Common Stock	Common Stock Held in Trust	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Parkway Properties, Inc. Shareholders' Equity	Noncontrolling Interest – Real Estate Partnerships	Total Equity
Balance at December 31, 2008 as previously reported	$ 57,976	$ 15	$ (2,895)	$ 428,367	$ (7,728)	$ (69,487)	$ 406,248	$ -	$ 406,248
Reclassification upon the adoption of SFAS No. 160	-	-	-	-	-	-	-	127,192	127,192
Balance at December 31, 2008 as presented	57,976	15	(2,895)	428,367	(7,728)	(69,487)	406,248	127,192	533,440
Comprehensive income (loss)									
Net income (loss)	-	-	-	-	-	131	131	(5,401)	(5,270)
Change in fair value of interest rate swaps	-	-	-	-	2,181	-	2,181	-	2,181
Total comprehensive income (loss)	-	-	-	-	-	-	2,312	(5,401)	(3,089)
Common dividends declared - $0.325 per share	-	-	-	-	-	(12,014)	(12,014)	-	(12,014)
Preferred dividends declared - $0.50 per share	-	-	-	-	-	(2,400)	(2,400)	-	(2,400)
Share-based compensation	-	-	-	1,281	-	-	1,281	-	1,281
Stock offering – 6,250,000 shares of common stock	-	7	-	84,452	-	-	84,459	-	84,459
Shares issued in lieu of Directors' fees	-	-	-	42	-	-	42	-	42
Purchase of Company stock – 3,594 shares withheld to satisfy tax withholding obligations in connection with the vesting of restricted stock	-	-	-	(42)	-	-	(42)	-	(42)
Distribution of 15,125 shares of common stock, deferred compensation plan	-	-	511	-	-	-	511	-	511
Contribution of 1,080 shares of common stock, deferred compensation plan	-	-	(15)	-	-	-	(15)	-	(15)
Contribution of capital by noncontrolling interests	-	-	-	-	-	-	-	57	57
Balance at June 30, 2009	$ 57,976	$ 22	$ (2,399)	$ 514,100	$ (5,547)	$ (83,770)	$ 480,382	$ 121,848	$ 602,230

See notes to consolidated financial statements.

PARKWAY PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Six Months Ended June 30 2009	Six Months Ended June 30 2008
	(Unaudited)	
Operating activities		
Net income (loss)	$ 131	$ (4,531)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	45,276	43,649
Depreciation and amortization - discontinued operations	24	1,957
Amortization of above (below) market leases	(90)	247
Amortization of loan costs	1,225	872
Amortization of mortgage loan discount	(293)	(249)
Share-based compensation expense	1,281	918
Operating distributions from unconsolidated joint ventures	323	661
Loss allocated to noncontrolling interests	(5,401)	(4,550)
Net gain on real estate and involuntary conversion	(1,212)	-
Equity in earnings of unconsolidated joint ventures	(427)	(547)
Increase in deferred leasing costs	(4,463)	(4,694)
Changes in operating assets and liabilities:		
Change in receivables and other assets	5,753	9,894
Change in accounts payable and other liabilities	(4,430)	(4,833)
Cash provided by operating activities	37,697	38,794
Investing activities		
Distributions from unconsolidated joint ventures	-	38
Reimbursements from (purchases of) real estate related investments	707	(231,814)
Proceeds from sale of real estate	15,542	-
Proceeds from property insurance settlement	1,855	-
Real estate development	(4,507)	(13,685)
Improvements to real estate related investments	(12,215)	(14,535)
Cash provided by (used in) investing activities	1,382	(259,996)
Financing activities		
Principal payments on mortgage notes payable	(28,377)	(52,123)
Proceeds from long-term financing	18,500	213,365
Proceeds from bank borrowings	35,555	116,227
Payments on bank borrowings	(121,495)	(89,715)
Debt financing costs	(307)	(1,686)
Stock options exercised	-	779
Purchase of Company common stock	(42)	-
Dividends paid on common stock	(11,880)	(19,656)
Dividends paid on preferred stock	(2,400)	(2,400)
Contributions from noncontrolling interest partners	57	60,501
Distributions to noncontrolling interest partners	-	(1,215)
Proceeds from common stock offering	84,459	-
Cash provided by (used in) financing activities	(25,930)	224,077
Change in cash and cash equivalents	13,149	2,875
Cash and cash equivalents at beginning of period	15,318	11,312
Cash and cash equivalents at end of period	$ 28,467	$ 14,187

See notes to consolidated financial statements.

Parkway Properties, Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)
June 30, 2009

Note A - Basis of Presentation

The consolidated financial statements include the accounts of Parkway Properties, Inc. ("Parkway" or "the Company"), its wholly-owned subsidiaries and joint ventures in which the Company has a controlling interest. The other partners' equity interests in the consolidated joint ventures are reflected as noncontrolling interests in the consolidated financial statements. Parkway also consolidates subsidiaries where the entity is a variable interest entity and Parkway is the primary beneficiary, as defined in Financial Accounting Standards Board ("FASB") Interpretation 46R, *Consolidation of Variable Interest Entities* ("FIN 46R"). All significant intercompany transactions and accounts have been eliminated in the accompanying financial statements.

The Company determines consolidation for joint ventures based on standards set forth in EITF 96-16, *Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights;* EITF 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights;* Statement of Position 78-9, *Accounting for Investments in Real Estate Ventures;* and FIN 46R. Based on the guidance set forth in these pronouncements, the Company consolidates certain joint ventures where it exercises significant control over major operating and management decisions, or where the Company is the sole general partner and the limited partners do not possess kick-out rights or other substantive participating rights or where the entity is a variable interest entity and Parkway is the primary beneficiary. The equity method of accounting is used for those joint ventures that do not meet the criteria for consolidation and where Parkway exercises significant influence but does not control these joint ventures.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles ("GAAP") for complete financial statements.

The accompanying unaudited condensed financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. All such adjustments are of a normal recurring nature. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Operating results for the three months and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ended December 31, 2009. The financial statements should be read in conjunction with the 2008 annual report and the notes thereto.

The balance sheet at December 31, 2008 has been derived from the audited financial statements as of that date but does not include all of the information and footnotes required by United States GAAP for complete financial statements.

Certain reclassifications have been made in the 2008 financial statements to conform to the 2009 classifications.

The Company has evaluated all subsequent events through the issuance date of the financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 141(R), "Business Combinations" ("SFAS No. 141(R)"), which revised the previously issued SFAS No. 141 ("SFAS No. 141"). SFAS No. 141(R) retains the fundamental requirements of SFAS No. 141, but expands the scope to include all transactions and other events in which one entity obtains control over one or more other businesses. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS No. 141(R) requires that the acquisition related transaction costs be expensed as incurred. SFAS No. 141(R) also includes new disclosure requirements. The impact of SFAS No. 141(R) on the Company's overall financial position and results of operations will be determined by the markets in which the Company invests. At June 30, 2009, the application of SFAS No. 141(R) had not impacted the Company's overall financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51” (“SFAS No. 160”). SFAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 also amends certain of ARB No. 51’s consolidation procedures for consistency with the requirements of SFAS No. 141R. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Upon adoption of SFAS No. 160, the Company reclassified its noncontrolling interest in real estate partnerships from minority interest to equity in the accompanying June 30, 2009 and December 31, 2008 consolidated balance sheets. In addition, the Company has separately disclosed the amount of consolidated net loss attributable to the Company and its noncontrolling interest in consolidated real estate partnerships in the accompanying June 30, 2009 and 2008 consolidated statements of income.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS No. 161”), which is an amendment of FASB Statement No. 133. SFAS No. 161 requires all entities with derivative instruments to disclose information regarding how and why the entity uses derivative instruments and how derivative instruments and related hedged items affect the entity’s financial position, financial performance, and cash flows. The Statement is effective prospectively for periods beginning on or after November 15, 2008. The application of SFAS 161 had an immaterial impact on the Company’s overall financial position and results of operations upon adoption January 1, 2009.

In November 2008, the Emerging Issues Task Force (“EITF”) issued EITF 08-6, “Equity Method Investment Accounting Considerations,” which applies to all investments accounted for under the equity method and clarifies the accounting for certain transactions and impairment considerations involving those investments. EITF 08-6 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The application of EITF 08-6 had an immaterial impact on the Company’s overall financial position and results of operation upon adoption January 1, 2009.

In April 2009, the FASB issued FASB Staff Position (“FSP”) FAS No. 107-1 and APB Opinion No. 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (“FSP FAS No. 107-1 and APB Opinion No. 28-1”), which requires fair value disclosures for financial instruments that are not reflected in the Consolidated Balance Sheets at fair value. Prior to the issuance of FSP FAS No. 107-1 and APB Opinion No. 28-1, the fair values of those assets and liabilities were disclosed annually. Upon adoption of FSP FAS No. 107-1 and APB Opinion No. 28-1 during the second quarter of 2009, the Company is now required to disclose this information on a quarterly basis, providing quantitative and qualitative information about fair value estimates for all financial instruments not measured in the Consolidated Balance Sheet at fair value.

In June 2009, the FASB issued SFAS No. 165, “Subsequent Events” (“SFAS No. 165”), which establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The adoption of SFAS No. 165 during the second quarter of 2009 did not have a material impact on the Company’s overall financial position and results of operations.

In June 2009, the FASB issued SFAS No. 166, “Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140” (“SFAS No. 166”) which amends SFAS No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” by: eliminating the concept of a qualifying special-purpose entity (“QSPE”); clarifying and amending the derecognition criteria for a transfer to be accounted for as a sale; amending and clarifying the unit of account eligible for sale accounting; and requiring that a transferor initially measure at fair value and recognize all assets obtained (for example beneficial interests) and liabilities incurred as a result of a transfer of an entire financial asset or group of financial assets accounted for as a sale. Additionally, on and after the effective date, existing QSPEs (as defined under previous accounting standards) must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance. SFAS No. 166 requires enhanced disclosures about, among other things, a transferor’s continuing involvement with transfers of financial assets accounted for as sales, the risks inherent in the transferred financial assets that have been retained, and the nature and financial effect of restrictions on the transferor’s assets that continue to be reported in the Consolidated Balance Sheet. SFAS No. 166 will be effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. The Company is currently evaluating the impact of SFAS No. 166 on the Company’s consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS No. 167"). SFAS No 167 amends FIN 46(R), "Consolidation of Variable Interest Entities," and changes the consolidation guidance applicable to a variable interest entity ("VIE"). It also amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity's economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE. Previously, FIN 46(R) required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. QSPEs, which were previously exempt from the application of this standard, will be subject to the provisions of this standard when it becomes effective. SFAS No. 167 also requires enhanced disclosures about an enterprise's involvement with a VIE. SFAS No. 167 will be effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. The Company is currently evaluating the impact of SFAS No. 167 on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a Replacement of FASB Statement No. 162" ("SFAS No. 168"), which will become the source of authoritative United States GAAP recognized by the FASB to be applied by nongovernmental entities. SFAS No. 168 brings together in one place all authoritative GAAP previously in levels A through D of the GAAP hierarchy that has been issued by a standard setter, for example, FASB Statements, FASB Interpretations, EITF Abstracts, FASB Staff Positions and AICPA Accounting and Auditing Guides. SFAS No. 168 will be effective as of the beginning of interim and annual reporting periods that begin after September 15, 2009. The Company is currently evaluating the impact of SFAS No. 168 on the Company's consolidated financial statements.

Note B - Net Loss Per Common Share

Basic earnings per share ("EPS") are computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. In arriving at income available to common stockholders, preferred stock dividends are deducted. Diluted EPS reflects the potential dilution that could occur if share equivalents such as employee stock options, restricted shares and deferred incentive share units were exercised or converted into common stock that then shared in the earnings of Parkway.

The computation of diluted EPS is as follows (in thousands, except per share data):

	Three Months Ended June 30		**Six Months Ended June 30**	
	2009	**2008**	**2009**	**2008**
Numerator:				
Basic and diluted net loss available to common stockholders	$ (280)	$ (3,136)	$ (2,269)	$ (6,931)
Denominator:				
Basic weighted average shares	19,457	15,024	17,262	15,013
Dilutive weighted average shares	19,457	15,024	17,262	15,013
Diluted loss per share attributable to Parkway Properties, Inc.	$ (0.01)	$ (0.21)	$ (0.13)	$ (0.46)

Consolidated loss from continuing operations was $953,000 and $4.7 million for the three months ended June 30, 2009 and 2008, respectively. Income from continuing operations attributable to Parkway Properties, Inc. was $684,000 for the three months ended June 30, 2009 compared to a loss from continuing operations of $2.7 million for the three months ended June 30, 2008. Loss from continuing operations attributable to noncontrolling interests was $1.6 million and $2.1 million for the three months ended June 30, 2009 and 2008, respectively.

Consolidated loss from continuing operations was $5.7 million and $10.4 million for the six months ended June 30, 2009 and 2008, respectively. Loss from continuing operations attributable to Parkway Properties, Inc. was $283,000 and $5.8 million for the six months ended June 30, 2009 and 2008, respectively. Loss from continuing operations attributable to noncontrolling interests was $5.4 million and $4.6 million for the six months ended June 30, 2009 and 2008, respectively.

The computation of diluted EPS for the three months and six months ended June 30, 2009 and 2008 did not include the effect of employee stock options, deferred incentive units and restricted shares because their inclusion would have been anti-dilutive.

Note C - Supplemental Cash Flow Information and Schedule of Non-Cash Investing and Financing Activity

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

	Six Months Ended June 30	
	2009	**2008**
	(in thousands)	
Supplemental cash flow information:		
Cash paid for interest (net of amount capitalized)	$ 27,102	$ 29,886
Supplemental schedule of non-cash investing and financing activity:		
Restricted shares and deferred incentive share units issued	3,066	1,147
Shares issued in lieu of Directors' fees	42	140

Note D - Dispositions

On February 20, 2009, the Company sold Lynnwood Plaza, an 82,000 square foot office property in Hampton Roads, Virginia to an unrelated third party for a gross sales price of $7.8 million. Parkway received net cash proceeds from the sale of $7.1 million, which were used to reduce amounts outstanding under the Company's line of credit. During the fourth quarter of 2008 the Company recognized a non-cash impairment loss of approximately $1.1 million related to this property. Parkway Realty Services, LLC, a subsidiary of the Company, was retained to provide management services for the property under a one-year agreement. Therefore, all revenue and expense for this property is included as a component of continuing operations.

On June 1, 2009, the Company sold 1717 St. James Place, a 110,000 square foot office property in Houston, Texas to an unrelated third party for a gross sales price of $8.7 million, and Parkway received net cash proceeds from the sale of $8.4 million. The Company recognized a gain on the sale of $540,000 in the second quarter 2009. Parkway Realty Services, LLC, a subsidiary of the Company, was retained to provide management services for the property under a one-year agreement. Therefore, all revenue and expense for this property is included as a component of continuing operations.

Note E - Office Property Held for Sale

During the quarter ended March 31, 2009, the Company classified Atrium at Stoneridge, a 108,000 square foot non-core office building in Columbia, South Carolina, as held for sale. A non-cash impairment loss of $727,000 was recorded during the fourth quarter of 2008 on this asset. At June 30, 2009, the Company's management believed the sale of this office property was probable and classified it as held for sale. In accordance with GAAP, all current and prior period income from Atrium at Stoneridge has been classified as discontinued operations. On July 8, 2009, the contract to sell Atrium at Stoneridge was terminated due to the inability of the proposed buyer to raise sufficient equity to complete the purchase. The Company has received $350,000 in non-refundable earnest money in connection with the proposed sale of this asset that will be recorded as other income in the third quarter of 2009.

The major classes of assets and liabilities classified as held for sale for Atrium at Stoneridge at June 30, 2009 are as follows (in thousands):

	June 30 2009
Balance Sheet:	
Investment property	$ 7,632
Accumulated depreciation	(808)
Office property held for sale	6,824
Rents receivable and other assets	438
Total assets	$ 7,262
Accounts payable and other liabilities	$ 216
Stockholders' equity	7,046
Total liabilities and stockholders' equity	$ 7,262

Note F - Discontinued Operations

All current and prior period income from the following office property dispositions are included in discontinued operations for the three months and six months ended June 30, 2009 and 2008 (in thousands).

Office Property	Location	Square Feet	Date of Sale	Net Sales Price	Net Book Value of Real Estate	Gain on Sale
Town Point Center	Norfolk, Virginia	131	07/15/08	$ 12,180	$ 10,621	$ 1,559
Wachovia Plaza	St. Petersburg, Florida	186	08/18/08	25,492	16,154	9,338
Capitol Center	Columbia, South Carolina	460	09/05/08	46,792	35,101	11,691
2008 Dispositions		777		$ 84,464	$ 61,876	$ 22,588

Also included in discontinued operations are all current and prior period income from Atrium at Stoneridge, which is held for sale at June 30, 2009.

The amount of revenue and expense for these four office properties reported in discontinued operations for the three months and six months ended June 30, 2009 and 2008 is as follows (in thousands):

	Three Months Ended June 30		Six Months Ended June 30	
	2009	2008	2009	2008
Income Statement:				
Revenues				
Income from office and parking properties	$ 403	$ 3,900	$ 794	$ 7,690
	403	3,900	794	7,690
Expenses				
Office and parking properties:				
Property operating expense	167	1,793	356	3,687
Interest expense	-	380	-	763
Depreciation and amortization	-	995	24	1,957
	167	3,168	380	6,407
Income from discontinued operations	$ 236	$ 732	$ 414	$ 1,283

Note G - Mortgage Loan

The Company owns the B participation piece (the "B piece") of a first mortgage secured by an 844,000 square foot office building in Dallas, Texas known as 2100 Ross for $6.9 million. The B piece was originated by Wachovia Bank, N.A., a Wells Fargo Company, and has a face value of $10.0 million and a stated coupon rate of 6.065%. Upon maturity in May 2012, the Company will receive a principal payment of $10.0 million, which produces a yield to maturity of 15.6%. The balance of the mortgage loan was $7.8 million at June 30, 2009. The carrying amount for the mortgage loan approximated fair value at June 30, 2009.

Note H - Investment in Unconsolidated Joint Ventures

In addition to the 59 office and parking properties included in the consolidated financial statements, the Company is also invested in four unconsolidated joint ventures with unrelated investors. These investments are accounted for using the equity method of accounting, as Parkway does not control any of these joint ventures. Accordingly, the assets and liabilities of the joint ventures are not included on Parkway's consolidated balance sheets at June 30, 2009 and December 31, 2008. Information relating to these unconsolidated joint ventures is detailed below (in thousands).

Joint Venture Entity	Property Name	Location	Parkway's Ownership Interest	Square Feet	Percentage Leased At 07/01/09
Wink-Parkway Partnership	Wink Building	New Orleans, LA	50.0%	32	7.6%
Parkway Joint Venture, LLC ("Jackson JV")	UBS Building/River Oaks	Jackson, MS	20.0%	167	91.5%
RubiconPark I, LLC ("Rubicon JV")	Lakewood/Falls Pointe Carmel Crossing	Atlanta, GA Charlotte, NC	20.0%	552	92.4%
RubiconPark II, LLC ("Maitland JV")	Maitland 200	Orlando, FL	20.0%	205	99.0%
				956	90.8%

Cash distributions from unconsolidated joint ventures are made to each partner based on their percentage of ownership in each entity. Cash distributions made to partners in joint ventures where the percentage of debt assumed is disproportionate to the ownership percentage in the venture is distributed based on each partner's share of cash available for distribution before debt service, based on their ownership percentage, less the partner's share of debt service based on the percentage of debt assumed by each partner.

Parkway provides management, construction and leasing services for all of the unconsolidated joint ventures except for the Wink-Parkway Partnership, and receives market based fees for these services. The portion of fees earned on unconsolidated joint ventures attributable to Parkway's ownership interest is eliminated in consolidation.

Balance sheet information for the unconsolidated joint ventures is summarized below at June 30, 2009 and December 31, 2008 (in thousands):

	June 30, 2009				
	Wink Building	Jackson JV	Rubicon JV	Maitland JV	Combined Total
Unconsolidated joint ventures (at 100%):					
Real estate, net	$ 1,157	$ 15,708	$ 65,190	$ 28,447	$ 110,502
Other assets	527	962	9,018	1,192	11,699
Total assets	$ 1,684	$ 16,670	$ 74,208	$ 29,639	$ 122,201
Mortgage debt (a)	$ 10	$ 12,600	$ 51,684	$ 17,915	$ 82,209
Other liabilities	44	431	1,886	745	3,106
Partners' and shareholders' equity	1,630	3,639	20,638	10,979	36,886
Total liabilities & partners'/shareholders' equity	$ 1,684	$ 16,670	$ 74,208	$ 29,639	$ 122,201
Parkway's share of unconsolidated joint ventures:					
Real estate, net	$ 579	$ 3,142	$ 13,038	$ 5,689	$ 22,448
Mortgage debt	$ 5	$ 2,520	$ 7,156	$ -	$ 9,681
Investment in joint ventures	$ 815	$ (284)	$ 5,713	$ 5,082	$ 11,326

	December 31, 2008				
	Wink Building	Jackson JV	Rubicon JV	Maitland JV	Combined Total
Unconsolidated joint ventures (at 100%):					
Real estate, net	$ 1,168	$ 15,918	$ 65,749	$ 28,828	$ 111,663
Other assets	457	1,006	8,076	1,048	10,587
Total assets	$ 1,625	$ 16,924	$ 73,825	$ 29,876	$ 122,250
Mortgage debt (a)	$ 67	$ 12,600	$ 52,000	$ 18,154	$ 82,821
Other liabilities	39	700	1,573	628	2,940
Partners' and shareholders' equity	1,519	3,624	20,252	11,094	36,489
Total liabilities & partners'/shareholders' equity	$ 1,625	$ 16,924	$ 73,825	$ 29,876	$ 122,250
Parkway's share of unconsolidated joint ventures:					
Real estate, net	$ 584	$ 3,184	$ 13,150	$ 5,766	$ 22,684
Mortgage debt	$ 34	$ 2,520	$ 7,200	$ -	$ 9,754
Investment in joint ventures	$ 760	$ (310)	$ 5,484	$ 5,123	$ 11,057

(a) The mortgage debt, all of which is non-recourse, is collateralized by the individual real estate properties within each venture.

In most cases the Company's share of debt related to its unconsolidated joint ventures is the same as its ownership percentage in the venture. However, in the case of the Rubicon Joint Venture and the Maitland Joint Venture, the Company's share of debt is disproportionate to its ownership percentage. The disproportionate debt structure was created to meet the Company's partner's financing criteria. In the Rubicon Joint Venture, Parkway owns a 20% interest in the venture but assumed 13.85% of the debt. In the Maitland Joint Venture, the Company owns a 20% interest in the venture and assumed none of the debt. The terms related to Parkway's share of unconsolidated joint venture mortgage debt are summarized below (in thousands):

Joint Venture	Type Debt Service	Interest Rate	Maturity Date	Parkway's Share of Debt	Monthly Debt Service	Loan Balance 06/30/09	Loan Balance 12/31/08
Wink-Parkway Partnership	Amortizing	8.625%	07/01/09	50.00%	$ 5	$ 5	$ 34
Maitland JV	Amortizing	4.390%	06/01/11	0.00%	-	-	-
Rubicon JV	Amortizing	4.865%	01/01/12	13.85%	30	7,156	7,200
Jackson JV	Interest Only	5.840%	07/01/15	20.00%	12	2,520	2,520
					$ 47	$ 9,681	$ 9,754
Weighted average interest rate at end of period						5.121%	5.130%

The following table presents Parkway's proportionate share of principal payments due for mortgage debt in unconsolidated joint ventures at June 30, 2009 (in thousands):

	Wink Partnership	Maitland JV	Rubicon JV	Jackson JV	Total
2009 (Remaining six months)	$ 5	$ -	$ 52	$ 13	$ 70
2010	-	-	109	32	141
2011	-	-	114	35	149
2012	-	-	6,881	37	6,918
2013	-	-	-	39	39
2014	-	-	-	41	41
Thereafter	-	-	-	2,323	2,323
	$ 5	$ -	$ 7,156	$ 2,520	$ 9,681

Income statement information for the unconsolidated joint ventures is summarized below for the three months ended June 30, 2009 and 2008 (in thousands):

	Results of Operations Three Months Ended June 30, 2009					
	Viad Corp Center	**Wink Building**	**Jackson JV**	**Rubicon JV**	**Maitland JV**	**Combined Total**
Unconsolidated joint ventures (100%):						
Revenues	$ -	$ 83	$ 717	$ 2,424	$ 1,149	$ 4,373
Operating expenses	-	2	(291)	(925)	(446)	(1,660)
Net operating income	-	85	426	1,499	703	2,713
Interest expense	-	(1)	(184)	(636)	(197)	(1,018)
Loan cost amortization	-	(1)	(1)	(16)	(3)	(21)
Depreciation and amortization	-	(6)	(165)	(643)	(242)	(1,056)
Net income	$ -	$ 77	$ 76	$ 204	$ 261	$ 618
Parkway's share of unconsolidated joint ventures:						
Net income	$ -	$ 39	$ 15	$ 81	$ 92	$ 227
Depreciation and amortization	$ -	$ 3	$ 33	$ 129	$ 48	$ 213
Property management fees	$ -	$ -	$ 33	$ 559	$ 34	$ 626
Interest expense	$ -	$ -	$ 37	$ 88	$ -	$ 125
Loan cost amortization	$ -	$ 1	$ -	$ 2	$ -	$ 3
Other supplemental information:						
Distributions from unconsolidated joint ventures	$ -	$ -	$ 23	$ -	$ 139	$ 162

	Results of Operations Three Months Ended June 30, 2008					
	Viad Corp Center	**Wink Building**	**Jackson JV**	**Rubicon JV**	**Maitland JV**	**Combined Total**
Unconsolidated joint ventures (100%):						
Revenues	$ 108	$ 94	$ 655	$ 2,566	$ 1,155	$ 4,578
Operating expenses	(2)	(20)	(345)	(977)	(400)	(1,744)
Net operating income	106	74	310	1,589	755	2,834
Interest expense	-	(7)	(184)	(639)	(202)	(1,032)
Loan cost amortization	-	(1)	(1)	(16)	(3)	(21)
Depreciation and amortization	-	(6)	(153)	(513)	(214)	(886)
Net income (loss)	$ 106	$ 60	$ (28)	$ 421	$ 336	$ 895
Parkway's share of unconsolidated joint ventures:						
Net income (loss)	$ 32	$ 30	$ (6)	$ 125	$ 108	$ 289
Depreciation and amortization	$ -	$ 3	$ 30	$ 103	$ 43	$ 179
Property management fees	$ -	$ -	$ 39	$ 99	$ 31	$ 169
Incentive fee	$ 5	$ -	$ -	$ -	$ -	$ 5
Interest expense	$ -	$ 3	$ 37	$ 89	$ -	$ 129
Loan cost amortization	$ -	$ 1	$ -	$ 1	$ -	$ 2
Other supplemental information:						
Distributions from unconsolidated joint ventures	$ 38	$ -	$ 13	$ 95	$ 171	$ 317

Income statement information for the unconsolidated joint ventures is summarized below for the six months ended June 30, 2009 and 2008 (in thousands):

	Results of Operations Six Months Ended June 30, 2009					
	Viad Corp Center	**Wink Building**	**Jackson JV**	**Rubicon JV**	**Maitland JV**	**Combined Total**
Unconsolidated joint ventures (100%):						
Revenues	$ -	$ 162	$ 1,482	$ 4,906	$ 2,293	$ 8,843
Operating expenses	-	(36)	(660)	(1,991)	(884)	(3,571)
Net operating income	-	126	822	2,915	1,409	5,272
Interest expense	-	(2)	(368)	(1,268)	(395)	(2,033)
Loan cost amortization	-	(2)	(2)	(31)	(7)	(42)
Depreciation and amortization	-	(12)	(321)	(1,229)	(466)	(2,028)
Net income	$ -	$ 110	$ 131	$ 387	$ 541	$ 1,169
Parkway's share of unconsolidated joint ventures:						
Net income	$ -	$ 55	$ 26	$ 157	$ 189	$ 427
Depreciation and amortization	$ -	$ 6	$ 64	$ 246	$ 93	$ 409
Property management fees	$ -	$ -	$ 76	$ 713	$ 70	$ 859
Interest expense	$ -	$ 1	$ 74	$ 175	$ -	$ 250
Loan cost amortization	$ -	$ 1	$ -	$ 5	$ -	$ 6
Other supplemental information:						
Distributions from unconsolidated joint ventures	$ -	$ -	$ 47	$ 14	$ 262	$ 323

	Results of Operations Six Months Ended June 30, 2008					
	Viad Corp Center	**Wink Building**	**Jackson JV**	**Rubicon JV**	**Maitland JV**	**Combined Total**
Unconsolidated joint ventures (100%):						
Revenues	$ 108	$ 189	$ 1,289	$ 5,120	$ 2,308	$ 9,014
Operating expenses	(2)	(47)	(686)	(1,953)	(787)	(3,475)
Net operating income	106	142	603	3,167	1,521	5,539
Interest expense	-	(7)	(368)	(1,279)	(405)	(2,059)
Loan cost amortization	-	(1)	(2)	(32)	(7)	(42)
Depreciation and amortization	-	(12)	(295)	(1,025)	(424)	(1,756)
Net income (loss)	$ 106	$ 122	$ (62)	$ 831	$ 685	$ 1,682
Parkway's share of unconsolidated joint ventures:						
Net income (loss)	$ 32	$ 61	$ (12)	$ 247	$ 219	$ 547
Depreciation and amortization	$ -	$ 6	$ 59	$ 205	$ 85	$ 355
Property management fees	$ -	$ -	$ 108	$ 189	$ 86	$ 383
Incentive fee	$ 5	$ -	$ -	$ -	$ -	$ 5
Interest expense	$ -	$ 3	$ 74	$ 177	$ -	$ 254
Loan cost amortization	$ -	$ 1	$ -	$ 4	$ -	$ 5
Other supplemental information:						
Distributions from unconsolidated joint ventures	$ 38	$ -	$ 26	$ 174	$ 461	$ 699

Note I - Capital and Financing Transactions

At June 30, 2009, the Company had a total of $100.0 million outstanding under the line of credit and was in compliance with all loan covenants under each credit facility. The Company's line of credit allows borrowing up to a combined $311.0 million at either the 30-day LIBOR interest rate plus 130 basis points or the Prime interest rate plus 25 basis points. At June 30, 2009, all amounts outstanding under the line of credit are fixed by an interest rate swap agreement.

Mortgage notes payable at June 30, 2009 totaled $859.7 million with an average interest rate of 5.6% and were secured by office properties. The fair value of mortgage notes payable at June 30, 2009 was $782.2 million.

On February 27, 2009, the Company paid off the mortgage note payable secured by the 1717 St. James, 5300 Memorial, and Town and Country office buildings in Houston, Texas, with a total principal balance of $21.8 million with advances under the Company's line of credit. The mortgage had an interest rate of 4.83% and was scheduled to mature March 1, 2009. The mortgage represented the Company's only outstanding maturity in 2009.

On April 28, 2009, the Company sold 6.25 million shares of common stock to UBS Investment Bank at a gross offering price of $13.71 per share and a net price of $13.56 per share. The Company used the net proceeds of approximately $84.5 million to reduce outstanding borrowings under the Company's line of credit and for general corporate purposes.

On May 4, 2009, the Company placed an $18.5 million seven-year non-recourse first mortgage with a fixed interest rate of 7.6% per annum, and the proceeds were used to reduce borrowings under the line of credit. The mortgage is secured by the 5300 Memorial and Town and Country office buildings in Houston, Texas.

Note J - Noncontrolling Interest - Real Estate Partnerships

The Company has an interest in three joint ventures that are included in its consolidated financial statements. Information relating to these consolidated joint ventures is detailed below.

Joint Venture Entity and Property Name	Location	Parkway's Ownership %	Square Feet (In thousands)
Parkway Moore, LLC/ Moore Building Associates, LP Toyota Center	Memphis, TN	75.025%	175
Parkway Properties Office Fund, LP			
Desert Ridge I, II and Shops	Phoenix, AZ	26.500%	293
Maitland 100	Orlando, FL	25.000%	128
555 Winderley	Orlando, FL	25.000%	102
Gateway Center	Orlando, FL	25.000%	228
BellSouth Building	Jacksonville, FL	25.000%	92
Centurion Centre	Jacksonville, FL	25.000%	88
100 Ashford Center	Atlanta, GA	25.000%	160
Peachtree Ridge	Atlanta, GA	25.000%	163
Overlook II	Atlanta, GA	25.000%	260
Citicorp Plaza	Chicago, IL	40.000%	602
Chatham Centre	Schaumburg, IL	25.000%	206
Renaissance Center	Memphis, TN	25.000%	190
1401 Enclave Parkway	Houston, TX	25.000%	209
Total Parkway Properties Office Fund, LP			2,721
Parkway Properties Office Fund II, LP	-	-	-
Total Consolidated Joint Ventures			2,896

Moore Building Associates, LP ("MBALP") was established for the purpose of owning a commercial office building (the Toyota Center in Memphis, Tennessee). In acting as the general partner, Parkway is committed to providing additional funding to meet partnership operating deficits up to an aggregate amount of $1 million. Parkway receives income from MBALP in the form of property management fees. Parkway also receives interest income on a note receivable from Parkway Moore, LLC ("PMLLC"). Any intercompany asset, liability, revenue and expense accounts between Parkway and MBALP and PMLLC have been eliminated.

Parkway serves as the general partner of Parkway Properties Office Fund, LP ("Ohio PERS Fund I") and provides asset management, property management, leasing and construction management services to the fund, for which it is paid market-based fees. Cash distributions from the fund are made to each joint venture partner based on their percentage of ownership in the fund. Since Parkway is the sole general partner and has the authority to make major decisions on behalf of the fund, Parkway is considered to have a controlling interest. Accordingly, Parkway is required to consolidate the fund in its consolidated financial statements. At February 15, 2008, Ohio PERS Fund I was fully invested.

In 2008, Parkway formed Parkway Properties Office Fund II, LP ("Texas Teachers Fund II"), a $750.0 million discretionary fund with the Teacher Retirement System of Texas ("TRS"), for the purpose of acquiring high-quality multi-tenant office properties. TRS will be a 70% investor, and Parkway will be a 30% investor in the fund, which will be capitalized with approximately $375.0 million of equity capital and $375.0 million of non-recourse, fixed-rate first mortgage debt. Parkway's share of the equity contribution for the fund will be $112.5 million and will be funded with proceeds from asset sales, line of credit advances and/or sales of equity securities. The fund will target investments in office buildings in Houston, Austin, San Antonio, Chicago, Atlanta, Phoenix, Charlotte, Memphis, Nashville, Jacksonville, Orlando, Tampa/St. Petersburg, Ft. Lauderdale, as well as other growth markets to be determined at Parkway's discretion.

Parkway will serve as the general partner of Texas Teachers Fund II and will provide asset management, property management, and leasing and construction management services to the fund for which it will be paid market-based fees. Parkway will have four years, or through May 2012, to identify and acquire properties, with funds contributed as needed to complete acquisitions. Parkway will exclusively represent the fund in making acquisitions within the target markets and within certain predefined criteria. Parkway may continue to make fee-simple acquisitions in markets outside of the target markets, acquire properties within the target markets that do not meet the fund's specific criteria or sell any currently owned properties. At June 30, 2009, there have been no acquisitions of assets on behalf of Texas Teachers Fund II.

Noncontrolling interest - real estate partnerships represents the other partners' proportionate share of equity in the partnerships discussed above at June 30, 2009. Income is allocated to noncontrolling interest based on the weighted average percentage ownership during the year.

Note K - Share-Based Compensation

Effective January 1, 2003, the stockholders of the Company approved Parkway's 2003 Equity Incentive Plan (the "2003 Plan") that authorized the grant of up to 200,000 equity based awards to employees of the Company. At present, it is Parkway's intention to grant restricted shares and/or deferred incentive share units instead of stock options. Restricted shares and deferred incentive share units are valued based on the New York Stock Exchange closing market price of Parkway common shares (NYSE ticker symbol, PKY) as of the date of grant.

Compensation expense, including estimated forfeitures, is recognized over the expected vesting period, which is four to seven years from grant date for restricted shares subject to service conditions and four years from grant date for deferred incentive share units. During the six months ended June 30, 2009, a total of 30,416 restricted shares were issued to officers of the Company. These shares vested upon achievement of the goals of the GEAR UP Plan. The compensation expense relating to the vesting of the GEAR UP performance-based restricted shares was recognized in 2008.

Compensation expense related to restricted shares and deferred incentive share units of $1.3 million and $918,000 was recognized for the six months ended June 30, 2009 and 2008, respectively. Total compensation expense related to nonvested awards not yet recognized was $3.6 million at June 30, 2009. Of the total not yet recognized at June 30, 2009, $2.2 million and $1.4 million are subject to service conditions and performance conditions, respectively. The weighted average period over which the expense subject to service and performance conditions is expected to be recognized is approximately two years. For the remainder of 2009, the Company expects to recognize approximately $1.3 million of additional compensation expense on nonvested awards subject to service and performance conditions.

Restricted shares and deferred incentive share units are forfeited if an employee leaves the Company before the vesting date. Shares and/or units that are forfeited become available for future grant under the 2003 Plan.

On February 3, 2009, the Board of Directors approved the grant of 120,000 restricted shares to officers of the Company. The shares were valued at $1.9 million and will vest subject to achievement of certain performance-based goals in 2009 at a rate of 30,000 shares per year over the four years following the grant date.

A summary of the Company's restricted shares and deferred incentive share unit activity for the six months ended June 30, 2009 is as follows:

	Restricted Shares	Weighted Average Grant-Date Fair Value	Deferred Incentive Share Units	Weighted Average Grant-Date Fair Value
Balance at 12/31/08	220,641	$39.49	22,805	$37.62
Granted	120,000	15.76	-	-
Vested	(30,416)	43.08	-	-
Forfeited	(1,750)	30.85	(2,120)	38.44
Balance at 06/30/09	308,475	$29.96	20,685	$37.54

Note L - Segment Information

Parkway's primary business is the ownership and operation of office properties. The Company accounts for each office property or groups of related office properties as an individual operating segment. Parkway has aggregated its individual operating segments into a single reporting segment due to the fact that the individual operating segments have similar operating and economic characteristics.

The Company believes that the individual operating segments exhibit similar economic characteristics such as being leased by the square foot, sharing the same primary operating expenses and ancillary revenue opportunities and being cyclical in the economic performance-based on current supply and demand conditions. The individual operating segments are also similar in that revenues are derived from the leasing of office space to customers and each office property is managed and operated consistently in accordance with Parkway's standard operating procedures. The range and type of customer uses of our properties is similar throughout our portfolio regardless of location or class of building and the needs and priorities of our customers do not vary from building to building. Therefore, Parkway's management responsibilities do not vary from location to location based on the size of the building, geographic location or class.

The management of the Company evaluates the performance of the reportable office segment based on funds from operations applicable to common shareholders ("FFO"). Management believes that FFO is an appropriate measure of performance for equity REITs and computes this measure in accordance with the National Association of Real Estate Investment Trusts' ("NAREIT") definition of FFO. Funds from operations is defined by NAREIT as net income (computed in accordance with GAAP), excluding gains or losses from sales of property and extraordinary items under GAAP, plus depreciation and amortization, and after adjustments to derive the Company's pro rata share of FFO of consolidated and unconsolidated joint ventures. Further, the Company does not adjust FFO to eliminate the effects of non-recurring charges. The Company believes that FFO is a meaningful supplemental measure of its operating performance because historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time, as reflected through depreciation and amortization expenses. However, since real estate values have historically risen or fallen with market and other conditions, many industry investors and analysts have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient. Thus, NAREIT created FFO as a supplemental measure of operating performance for real estate investment trusts that excludes historical cost depreciation and amortization, among other items, from net income, as defined by GAAP. The Company believes that the use of FFO, combined with the required GAAP presentations, has been beneficial in improving the understanding of operating results of real estate investment trusts among the investing public and making comparisons of operating results among such companies more meaningful. FFO as reported by Parkway may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition. Funds from operations do not represent cash generated from operating activities in accordance with accounting principles generally accepted in the United States and is not an indication of cash available to fund cash needs. Funds from operations should not be considered an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flow as a measure of liquidity.

The following is a reconciliation of FFO and net income (loss) available to common stockholders for office properties and total consolidated entities for the three months ended June 30, 2009 and 2008. Amounts presented as "Unallocated and Other" represent primarily income and expense associated with providing management services, corporate general and administration expense, interest expense on unsecured lines of credit and preferred dividends.

	At or for the three months ended June 30, 2009			At or for the three months ended June 30, 2008		
	Office Properties	Unallocated and Other	Consolidated	Office Properties	Unallocated and Other	Consolidated
		(in thousands)			(in thousands)	
Property operating revenues (a)	$ 66,113	$ -	$ 66,113	$ 65,376	$ -	$ 65,376
Property operating expenses (b)	(31,381)	-	(31,381)	(31,173)	-	(31,173)
Property net operating income from continuing operations	34,732	-	34,732	34,203	-	34,203
Management company income	-	731	731	-	410	410
Interest and other income	-	309	309	-	306	306
Interest expense (c)	(12,390)	(1,660)	(14,050)	(11,869)	(3,103)	(14,972)
Management company expenses	-	(632)	(632)	-	(432)	(432)
General and administrative expenses	-	(1,369)	(1,369)	-	(2,092)	(2,092)
Equity in earnings of unconsolidated joint ventures	227	-	227	289	-	289
Adjustment for depreciation and amortization -unconsolidated joint ventures	213	-	213	179	-	179
Adjustment for depreciation and amortization - discontinued operations	-	-	-	995	-	995
Adjustment for noncontrolling interest -real estate partnerships	(2,679)	-	(2,679)	(2,835)	-	(2,835)
Income from discontinued operations	236	-	236	732	-	732
Dividends on preferred stock	-	(1,200)	(1,200)	-	(1,200)	(1,200)
Gain on involuntary conversion	279	-	279	-	-	-
Funds from operations available to common stockholders (d)	20,618	(3,821)	16,797	21,694	(6,111)	15,583
Depreciation and amortization	(21,720)	-	(21,720)	(22,443)	-	(22,443)
Depreciation and amortization -unconsolidated joint ventures	(213)	-	(213)	(179)	-	(179)
Depreciation and amortization -discontinued operations	-	-	-	(995)	-	(995)
Depreciation and amortization -noncontrolling interest - real estate partnerships	4,316	-	4,316	4,898	-	4,898
Gain on sale of real estate	540	-	540	-	-	-
Net income (loss) available to common stockholders	$ 3,541	$ (3,821)	$ (280)	$ 2,975	$ (6,111)	$ (3,136)
Capital expenditures (e)	$ 7,953	$ -	$ 7,953	$ 9,563	$ -	$ 9,563

(a) Included in property operating revenues are rental revenues, customer reimbursements, parking income and other income.

(b) Included in property operating expenses are real estate taxes, insurance, contract services, repairs and maintenance and other property operating expenses.

(c) Interest expense for office properties represents interest expense on property secured mortgage debt. It does not include interest expense on the Company's unsecured line of credit, which is included in "Unallocated and Other".

(d) For the three months ended June 30, 2009, FFO includes a gain on involuntary conversion from Hurricane Ike of $279,000 and lease termination fee income of $39,000. For the three months ended June 30, 2008, FFO includes lease termination fee income of $214,000 and a gain on the extinguishment of debt of $388,000.

(e) Capital expenditures include building improvements, tenant improvements and deferred leasing costs.

The following is a reconciliation of FFO and net income (loss) available to common stockholders for office properties and total consolidated entities for the six months ended June 30, 2009 and 2008. Amounts presented as "Unallocated and Other" represent primarily income and expense associated with providing management services, corporate general and administration expense, interest expense on unsecured lines of credit and preferred dividends.

	At or for the six months ended June 30, 2009			At or for the six months ended June 30, 2008		
	Office Properties	**Unallocated and Other**	**Consolidated**	**Office Properties**	**Unallocated and Other**	**Consolidated**
		(in thousands)			(in thousands)	
Property operating revenues (a)	$ 133,483	$ -	$ 133,483	$ 127,608	$ -	$ 127,608
Property operating expenses (b)	(65,102)	-	(65,102)	(61,032)	-	(61,032)
Property net operating income from continuing operations	68,381	-	68,381	66,576	-	66,576
Management company income	-	1,146	1,146	-	907	907
Interest and other income	-	611	611	-	674	674
Interest expense (c)	(24,564)	(3,537)	(28,101)	(23,758)	(6,352)	(30,110)
Management company expenses	-	(1,133)	(1,133)	-	(921)	(921)
General and administrative expenses	-	(2,951)	(2,951)	-	(4,388)	(4,388)
Equity in earnings of unconsolidated joint ventures	427	-	427	547	-	547
Adjustment for depreciation and amortization -unconsolidated joint ventures	409	-	409	355	-	355
Adjustment for depreciation and amortization - discontinued operations	24	-	24	1,957	-	1,957
Adjustment for noncontrolling interest -real estate partnerships	(4,913)	-	(4,913)	(4,558)	-	(4,558)
Income from discontinued operations	414	-	414	1,283	-	1,283
Dividends on preferred stock	-	(2,400)	(2,400)	-	(2,400)	(2,400)
Gain on involuntary conversion	742	-	742	-	-	-
Funds from operations available to common stockholders (d)	40,920	(8,264)	32,656	42,402	(12,480)	29,922
Depreciation and amortization	(45,276)	-	(45,276)	(43,649)	-	(43,649)
Depreciation and amortization -unconsolidated joint ventures	(409)	-	(409)	(355)	-	(355)
Depreciation and amortization -discontinued operations	(24)	-	(24)	(1,957)	-	(1,957)
Depreciation and amortization -noncontrolling interest - real estate partnerships	10,314	-	10,314	9,108	-	9,108
Gain on sale of real estate	470	-	470	-	-	-
Net income (loss) available to common stockholders	$ 5,995	$ (8,264)	$ (2,269)	$ 5,549	$ (12,480)	$ (6,931)
Total assets	$ 1,626,029	$ 22,392	$ 1,648,421	$ 1,737,518	$ 15,154	$ 1,752,672
Office and parking properties	$ 1,419,476	$ -	$ 1,419,476	$ 1,514,559	$ -	$ 1,514,559
Investment in unconsolidated joint ventures	$ 11,326	$ -	$ 11,326	$ 11,091	$ -	$ 11,091
Capital expenditures (e)	$ 16,678	$ -	$ 16,678	$ 19,229	$ -	$ 19,229

(a) Included in property operating revenues are rental revenues, customer reimbursements, parking income and other income.

(b) Included in property operating expenses are real estate taxes, insurance, contract services, repairs and maintenance and other property operating expenses.

(c) Interest expense for office properties represents interest expense on property secured mortgage debt. It does not include interest expense on the Company's unsecured line of credit, which is included in "Unallocated and Other".

(d) For the six months ended June 30, 2009, FFO includes a gain on involuntary conversion from Hurricane Ike of $742,000 and lease termination fee income of $80,000. For the six months ended June 30, 2008, FFO includes lease termination fee income of $1.3 million, offset by a reduction for a non-cash purchase accounting adjustment of $657,000 and debt prepayment expense of $13,000.

(e) Capital expenditures include building improvements, tenant improvements and deferred leasing costs.

Note M - Hurricane Ike Impact

The Company had 13 wholly-owned properties and one jointly-owned property totaling 2.3 million square feet in Houston, Texas, which sustained some property damage from Hurricane Ike on September 13, 2008. The current estimate of damages for the 14 properties is approximately $6.5 million. The Company estimates that its insurance deductible related to these claims will be approximately $2.6 million. Approximately $370,000 is estimated to represent repair and clean up costs with the remainder representing capitalized costs. The Company expects to record a net gain of approximately $860,000 related to an involuntary conversion of the damaged assets. During the three months and six months ended June 30, 2009, the Company recorded the partial recognition of the gain on involuntary conversion of $279,000 and $742,000, respectively, related to Hurricane Ike. The Company expects to recognize the remaining gain on involuntary conversion of approximately $118,000 in subsequent quarters.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

Parkway is a self-administered and self-managed REIT specializing in the acquisition, operation, leasing and ownership of office properties. The Company is geographically focused on the Southeastern and Southwestern United States and Chicago. At July 1, 2009, Parkway owned or had an interest in 65 office properties located in 11 states with an aggregate of approximately 13.4 million square feet of leasable space. Included in the portfolio are one discretionary fund and several partnership arrangements which encompass 21 properties totaling 3.9 million square feet, representing 28.8% of the portfolio. With the discretionary fund and/or partnerships, the Company receives fees for asset management, property management, leasing and construction management services and potentially receives incentive fees upon sale if certain investment targets are achieved. Increasing the number of co-investments, and consequently the related fee income, is part of the Company's strategy to transform itself to an operator-owner versus an owner-operator. The strategy capitalizes on the Company's strength in providing excellent service in the operation and acquisition of office properties for investment clients in addition to its direct ownership of real estate assets. Fee-based real estate services are offered through the Company's wholly owned subsidiary, Parkway Realty Services LLC, which also currently manages and/or leases approximately 1.4 million square feet for third party owners. The Company generates revenue primarily by leasing office space to its customers and providing management and leasing services to third party office property owners (including joint venture interests). The primary drivers behind Parkway's revenues are occupancy, rental rates and customer retention.

Occupancy. Parkway's revenues are dependent on the occupancy of its office buildings. At July 1, 2009, occupancy of Parkway's office portfolio was 88.7% compared to 89.2% at April 1, 2009 and 91.3% at July 1, 2008. Not included in the July 1, 2009 occupancy rate are 26 signed leases totaling 153,000 square feet, which commence during the third quarter of 2009 through the first quarter of 2010 and will raise Parkway's percentage leased to 89.8%. To combat rising vacancy, Parkway utilizes innovative approaches to produce new leases. These include the Broker Bill of Rights, a short-form service agreement and customer advocacy programs which are models in the industry and have helped the Company maintain occupancy around 90% during a time when the national occupancy rate is approximately 83.5%. Parkway currently projects an average annual occupancy range of approximately 88.5% to 89.5% during 2009 for its office properties.

Rental Rates. An increase in vacancy rates has the effect of reducing market rental rates and vice versa. Parkway's leases typically have three to seven year terms. As leases expire, the Company replaces the existing leases with new leases at the current market rental rate. At July 1, 2009, Parkway had $0.09 per square foot in rental rate embedded loss in its office property leases. Embedded loss is defined as the difference between the weighted average in place cash rents and the weighted average market rental rate.

Customer Retention. Keeping existing customers is important as high customer retention leads to increased occupancy, less downtime between leases, and reduced leasing costs. Parkway estimates that it costs five to six times more to replace an existing customer with a new one than to retain the customer. In making this estimate, Parkway takes into account the sum of revenue lost during downtime on the space plus leasing costs, which rise as market vacancies increase. Therefore, Parkway focuses a great deal of energy on customer retention. Parkway's operating philosophy is based on the premise that it is in the customer retention business. Parkway seeks to retain its customers by continually focusing on operations at its office properties. The Company believes in providing superior customer service; hiring, training, retaining and empowering each employee; and creating an environment of open communication both internally and externally with customers and stockholders. Over the past ten years, Parkway maintained an average 72.5% customer retention rate. Parkway's customer retention rate was 68.8% for the quarter ending June 30, 2009, as compared to 54.1% for the quarter ending March 31, 2009, and 87.1% for the quarter ending June 30, 2008. Customer retention for the six months ended June 30, 2009, and June 30, 2008, was 62.9% and 73.7%, respectively.

Discretionary Funds. On July 6, 2005, Parkway, through affiliated entities, entered into a limited partnership agreement forming a $500.0 million discretionary fund with Ohio PERS ("Ohio PERS Fund I") for the purpose of acquiring high-quality multi-tenant office properties. Ohio PERS is a 75% investor and Parkway is a 25% investor in the fund, which is capitalized with approximately $200.0 million of equity capital and $300.0 million of non-recourse, fixed-rate first mortgage debt. At February 15, 2008, the Ohio PERS Fund I was fully invested.

The Ohio PERS Fund I targeted properties with an anticipated leveraged internal rate of return of greater than 11%. Parkway serves as the general partner of the fund and provides asset management, property management, leasing and construction management services to the fund, for which it is paid market-based fees. After each partner has received a 10% annual cumulative preferred return and a return of invested capital, 20% of the excess cash flow will be paid to the general partner and 80% will be paid to the limited partners. Through its general partner and limited partner ownership interests, Parkway may receive a distribution of the cash flow equivalent to 40%. The term of Ohio PERS Fund I will be seven years until February 2015, with provisions to extend the term for two additional one-year periods.

On May 14, 2008, Parkway, through affiliated entities, entered into a limited partnership agreement forming a $750.0 million discretionary fund, known as Parkway Properties Office Fund II, L.P., ("Texas Teachers Fund II") with the Teacher Retirement System of Texas ("TRS") for the purpose of acquiring high-quality multi-tenant office properties. TRS is a 70% investor and Parkway is a 30% investor in the fund, which will be capitalized with approximately $375.0 million of equity capital and $375.0 million of non-recourse, fixed-rate first mortgage debt. Parkway's share of the equity contribution for the fund will be $112.5 million and will be funded with proceeds from asset sales, line of credit advances and/or sales of equity securities. The Texas Teachers Fund II targets acquisitions in the core markets of Houston, Austin, San Antonio, Chicago, Atlanta, Phoenix, Charlotte, Memphis, Nashville, Jacksonville, Orlando, Tampa/St. Petersburg, and other growth markets to be determined by Parkway.

The Texas Teachers Fund II targets properties with an anticipated leveraged internal rate of return of greater than 10%. Parkway serves as the general partner of the fund and provides asset management, property management, leasing and construction management services to the fund, for which it will be paid market-based fees. Cash will be distributed pro rata to each partner until a 9% annual cumulative preferred return is received and invested capital is returned. Thereafter, 56% will be distributed to TRS and 44% to Parkway. Parkway has four years, or through May 2012, to identify and acquire properties (the "Investment Period"), with funds contributed as needed to close acquisitions. Parkway will exclusively represent the fund in making acquisitions within the target markets and acquisitions with certain predefined criteria. Parkway will not be prohibited from making fee-simple or joint venture acquisitions in markets outside of the target markets, acquiring properties within the target markets that do not meet Texas Teachers Fund II's specific criteria or selling or joint venturing currently owned properties. The term of Texas Teachers Fund II will be seven years from the expiration of the Investment Period, with provisions to extend the term for two additional one-year periods at the discretion of Parkway.

Financial Condition

Comments are for the balance sheet dated June 30, 2009 compared to the balance sheet dated December 31, 2008.

Office and Parking Properties. In 2009, Parkway continued the execution of its strategy of operating and acquiring office properties, joint venturing interests in office assets, as well as liquidating non-core assets and office assets that no longer meet the Company's investment criteria or the Company has determined value will be maximized by selling. During the six months ended June 30, 2009, total assets decreased $39.4 million or 2.3% and office and parking properties and real estate development (before depreciation) decreased $9.4 million or 0.5%.

Dispositions & Improvements. Parkway's investment in office and parking properties and real estate development decreased $35.8 million net of depreciation to a carrying amount of $1.4 billion at June 30, 2009, and consisted of 59 office and parking properties. The primary reason for the decrease in office and parking properties relates to the net effect of the building improvements, development costs, the sale of two office properties, and depreciation recorded during the period.

On February 20, 2009, the Company sold Lynnwood Plaza, an 82,000 square foot office property located in Hampton Roads, Virginia, for a gross sales price of $7.8 million. Parkway received net cash proceeds from the sale of $7.1 million, which were used to reduce amounts outstanding under the Company's line of credit. During the fourth quarter of 2008, the Company recognized an impairment loss of $1.1 million related to this property. Parkway Realty Services LLC, a subsidiary of the Company, was retained to provide management and leasing services for the property under a one-year agreement. Therefore, all revenue and expenses for this property are included as a component of continuing operations.

On June 1, 2009, the Company sold 1717 St. James Place, a 110,000 square foot office property located in Houston, Texas, for a gross sales price of $8.7 million, and Parkway received net cash proceeds from the sale of $8.4 million. Parkway Realty Services, LLC, a subsidiary of the Company, was retained to provide management and leasing services for the property under a one-year agreement. Therefore, all revenue and expenses for this property are included as a component of continuing operations.

During the six months ended June 30, 2009, the Company capitalized building improvements and additional purchase expenses of $11.5 million and recorded depreciation expense of $33.3 million related to its office and parking properties.

Office Property Held for Sale. During 2009, Parkway classified Atrium at Stoneridge, a 108,000 square foot non-core office property in Columbia, South Carolina, as held for sale. A non-cash impairment loss of $727,000 was recorded during the fourth quarter of 2008 on this asset. At June 30, 2009, the Company's management believed the sale of this office property was probable and classified it as held for sale. In accordance with GAAP, all current and prior period income from Atrium at Stoneridge has been classified as discontinued operations. On July 8, 2009, the contract to sell Atrium at Stoneridge was terminated due to the inability of the proposed buyer to raise sufficient equity to complete the purchase. The Company has received $350,000 in non-refundable earnest money in connection with the proposed sale of this asset that will be recorded as other income in the third quarter of 2009.

Rents Receivable and Other Assets. For the six months ended June 30, 2009, rents receivable and other assets decreased $9.0 million or 7.6%. The net decrease is primarily due to the decrease in escrow bank account balances, which was caused by the release of funds in connection with payment of property taxes and office property capital expenditures, and the decrease in the receivables for insurance proceeds related to Hurricane Ike.

Intangible Assets, Net. For the six months ended June 30, 2009, intangible assets net of related amortization decreased $8.3 million or 10.5% and was primarily due to the effect of amortization of the existing intangible assets for the period.

Cash and Cash Equivalents. For the six months ended June 30, 2009, cash and cash equivalents increased $13.1 million, or 85.8% to a carrying amount of $28.5 million. The increase is primarily attributable to proceeds received from the sale of 1717 St. James Place in Houston, Texas.

Notes Payable to Banks. Notes payable to banks decreased $85.9 million or 46.2% during the six months ended June 30, 2009. At June 30, 2009, notes payable to banks totaled $100.0 million and the net decrease is primarily attributable to proceeds received from the sale of Lynwood Plaza in Hampton Roads, Virgina, the placement of a non-recourse first mortgage secured by two office buildings in Houston, Texas and the Company's common stock offering, offset by advances under the line of credit to make improvements to office properties and retire existing debt.

Mortgage Notes Payable. During the six months ended June 30, 2009, mortgage notes payable decreased $9.9 million or 1.1% and is due to the net effect of scheduled principal payments on mortgages of $6.6 million, the retirement of existing mortgage debt of $21.8 million, and the placement of mortgage debt of $18.5 million.

On February 27, 2009, the Company paid off the mortgage note payable secured by 1717 St. James, 5300 Memorial and Town and Country office buildings in Houston, Texas, with a total principal balance of $21.8 million with advances under the Company's line of credit. The mortgage had an interest rate of 4.83% and was scheduled to mature on March 1, 2009. The mortgage represented the Company's only outstanding maturity in 2009.

On May 4, 2009, the Company placed an $18.5 million seven-year non-recourse first mortgage with a fixed interest rate of 7.6% per annum, and the proceeds were used to reduce borrowings under the line of credit. The mortgage is secured by two office buildings in Houston, Texas totaling 303,000 square feet.

The Company expects to continue seeking fixed-rate, non-recourse mortgage financing with maturities from five to ten years typically amortizing over 25 to 30 years on select office building investments as additional capital is needed. The Company monitors the total debt to total asset value ratio as defined in the loan agreements for the $311.0 million unsecured line of credit. In addition to the total debt to total asset value ratio, the Company monitors interest, fixed charge and modified fixed charge coverage ratios and the debt to EBITDA multiple. The interest coverage ratio is computed by comparing the cash interest accrued to earnings before interest, taxes, depreciation and amortization ("EBITDA"). The fixed charge coverage ratio is computed by comparing the cash interest accrued, principal payments made on mortgage loans and preferred dividends paid to EBITDA. The modified fixed charge coverage ratio is computed by comparing cash interest accrued and preferred dividends paid to EBITDA. The debt to EBITDA multiple is computed by comparing Parkway's share of total debt to EBITDA computed for a trailing 12-month period. Management believes the total debt to total asset value, interest coverage, fixed charge coverage, modified fixed charge coverage and the debt to EBITDA multiple provide useful information on total debt levels as well as the Company's ability to cover interest, principal and/or preferred dividend payments with current income.

The computation of the interest, fixed charge and modified fixed charge coverage ratios, the debt to EBITDA multiple and the reconciliation of net income (loss) to EBITDA is as follows for the six months ended June 30, 2009 and 2008 (in thousands):

	Six Months Ended June 30	
	2009	2008
	(Unaudited)	
Net income (loss)	$ 131	$ (4,531)
Adjustments to net income (loss):		
Interest expense	26,876	29,988
Amortization of financing costs	1,225	872
Prepayment expense - early extinguishment of debt	-	13
Depreciation and amortization	45,300	45,606
Amortization of share-based compensation	1,281	918
Net gain on real estate and involuntary conversion	(1,212)	-
EBITDA adjustments - unconsolidated joint ventures	665	614
EBITDA adjustments - noncontrolling interest in real estate partnerships	(16,587)	(14,926)
EBITDA (1)	$ 57,679	$ 58,554
Interest coverage ratio:		
EBITDA	$ 57,679	$ 58,554
Interest expense:		
Interest expense	$ 26,876	$ 29,988
Capitalized interest	-	343
Interest expense - unconsolidated joint ventures	250	254
Interest expense - noncontrolling interest in real estate partnerships	(6,134)	(5,689)
Total interest expense	$ 20,992	$ 24,896
Interest coverage ratio	2.75	2.35
Fixed charge coverage ratio:		
EBITDA	$ 57,679	$ 58,554
Fixed charges:		
Interest expense	$ 20,992	$ 24,896
Preferred dividends	2,400	2,400
Principal payments (excluding early extinguishment of debt)	6,611	7,250
Principal payments - unconsolidated joint ventures	73	26
Principal payments - noncontrolling interest in real estate partnerships	(416)	(172)
Total fixed charges	$ 29,660	$ 34,400
Fixed charge coverage ratio	1.94	1.70
Modified fixed charge coverage ratio:		
EBITDA	$ 57,679	$ 58,554
Modified fixed charges:		
Interest expense	$ 20,992	$ 24,896
Preferred dividends	2,400	2,400
Total modified fixed charges	$ 23,392	$ 27,296
Modified fixed charge coverage ratio	2.47	2.15
Debt to EBITDA multiple:		
EBITDA - trailing 12 months	$ 115,334	$ 116,834
Mortgage notes payable	$ 859,704	$ 875,743
Notes payable to banks	100,000	238,861
Adjustments for unconsolidated joint ventures	9,681	9,781
Adjustments for noncontrolling interest in real estate partnerships	(216,170)	(216,757)
Parkway’s share of total debt	$ 753,215	$ 907,628
Debt to EBITDA multiple	6.53	7.77

(1) Parkway defines EBITDA, a non-GAAP financial measure, as net income before interest, income taxes, depreciation, amortization, losses on early extinguishment of debt and other gains and losses. EBITDA, as calculated by us, is not comparable to EBITDA reported by other REITs that do not define EBITDA exactly as we do.

The Company believes that EBITDA helps investors and Parkway's management analyze the Company's ability to service debt and pay cash distributions. However, the material limitations associated with using EBITDA as a non-GAAP financial measure compared to cash flows provided by operating, investing and financing activities are that EBITDA does not reflect the Company's historical cash expenditures or future cash requirements for working capital, capital expenditures or the cash required to make interest and principal payments on the Company's outstanding debt. Although EBITDA has limitations as an analytical tool, the Company compensates for the limitations by using EBITDA only to supplement GAAP financial measures. Additionally, the Company believes that investors should consider EBITDA in conjunction with net income and the other required GAAP measures of its performance and liquidity to improve their understanding of Parkway's operating results and liquidity.

Parkway views EBITDA primarily as a liquidity measure and, as such, the GAAP financial measure most directly comparable to it is cash flows provided by operating activities. Because EBITDA is not a measure of financial performance calculated in accordance with GAAP, it should not be considered in isolation or as a substitute for operating income, net income, or cash flows provided by operating, investing and financing activities prepared in accordance with GAAP. The following table reconciles EBITDA to cash flows provided by operating activities for the six months ended June 30, 2009 and 2008 (in thousands):

	Six Months Ended June 30	
	2009	**2008**
EBITDA	$ 57,679	$ 58,554
Amortization of above (below) market leases	(90)	247
Amortization of mortgage loan discount	(293)	(249)
Operating distributions from unconsolidated joint ventures	323	661
Interest expense	(26,876)	(29,988)
Prepayment expense - early extinguishment of debt	-	(13)
Change in deferred leasing costs	(4,463)	(4,694)
Change in receivables and other assets	5,753	9,894
Change in accounts payable and other liabilities	(4,430)	(4,833)
Adjustments for noncontrolling interests	11,186	10,376
Adjustments for unconsolidated joint ventures	(1,092)	(1,161)
Cash flows provided by operating activities	$ 37,697	$ 38,794

Equity. Total equity increased $68.8 million or 12.9 % during the six months ended June 30, 2009, as a result of the following (in thousands):

	Increase (Decrease)
Net income attributable to Parkway Properties, Inc.	$ 131
Net loss attributable to noncontrolling interest	(5,401)
Net loss	(5,270)
Change in market value of interest rate swaps	2,181
Comprehensive loss	(3,089)
Common stock dividends declared	(12,014)
Preferred stock dividends declared	(2,400)
Shares issued through common stock offering	84,459
Share-based compensation	1,281
Shares withheld to satisfy tax withholding obligation on vesting of restricted stock	(42)
Share issued in lieu of Directors' fees	42
Shares distributed from deferred compensation plan	496
Contribution of capital by noncontrolling interest	57
	$ 68,790

On April 28, 2009, the Company sold 6.25 million shares of common stock to UBS Investment Bank at a gross offering price of $13.71 per share and a net price of $13.56 per share. The Company used the net proceeds of approximately $84.5 million to reduce outstanding borrowings under the Company's line of credit and for general corporate purposes.

Results of Operations

Comments are for the three months and six months ended June 30, 2009 compared to the three months and six months ended June 30, 2008.

Net loss available to common stockholders for the three months ended June 30, 2009 was $280,000 ($0.01 per basic common share) as compared to net loss available to common stockholders of $3.1 million ($0.21 per basic common share) for the three months ended June 30, 2008. Net loss available to common stockholders for the six months ended June 30, 2009 was $2.3 million ($0.13 per basic common share) as compared to net loss available to common stockholders of $6.9 million ($0.46 per basic common share) for the six months ended June 30, 2008. The primary reason for the decrease in net loss is due to the net effect of increased net operating income from office properties, increased gains on sale of real estate and involuntary conversion and reduction in interest expense, offset by increased depreciation expense during the three months and six months ended June 30, 2009.

Office and Parking Properties. The analysis below includes changes attributable to same-store properties, acquisitions, development and dispositions of office properties. Same-store properties are those that the Company owned for the current and prior year reporting periods, excluding properties classified as discontinued operations. At June 30, 2009, same-store properties consisted of 57 properties comprising 12.1 million square feet. One office property with 189,000 square feet was developed in 2008 and does not meet the definition for a same-store property.

The following table represents revenue from office and parking properties for the three months and six months ended June 30, 2009 and 2008 (in thousands):

	Three Months Ended June 30				Six Months Ended June 30			
	2009	2008	Increase (Decrease)	% Change	2009	2008	Increase (Decrease)	% Change
Revenue from office and parking properties:								
Same-store properties	$ 64,855	$ 64,591	$ 264	0.4%	$ 123,871	$ 122,706	$ 1,165	0.9%
Properties acquired in 2008	-	-	-	0.0%	7,315	3,763	3,552	94.4%
Office property development	935	-	935	0.0%	1,778	-	1,778	0.0%
Properties disposed	323	785	(462)	-58.9%	519	1,139	(620)	-54.4%
Total revenue from office and parking properties	$ 66,113	$ 65,376	$ 737	1.1%	$ 133,483	$ 127,608	$ 5,875	4.6%

Revenue from office and parking properties for same-store properties increased $264,000 and $1.2 million for the three months and six months ended June 30, 2009, respectively, compared to the same period for 2008. The primary reason for the increase is due to an increase in same-store average rental rates for same-store properties for the three months and six months ended June 30, 2009 compared to June 30, 2008 offset by a decrease in lease termination fee income. Average same-store rental rates increased 3.0% and 2.8% for the three months and six months ended June 30, 2009, respectively, compared to the same period of 2008.

The following table represents property operating expenses for the three months and six months ended June 30, 2009 and 2008 (in thousands):

	Three Months Ended June 30				Six Months Ended June 30			
	2009	2008	Increase (Decrease)	% Change	2009	2008	Increase (Decrease)	% Change
Expenses from office and parking properties:								
Same-store properties	$ 30,758	$ 30,693	$ 65	0.2%	$ 60,234	$ 58,596	$ 1,638	2.8%
Properties acquired in 2008	-	-	-	0.0%	3,686	1,768	1,918	108.5%
Office property development	460	5	455	9100.0%	893	7	886	12657.1%
Properties disposed	163	475	(312)	-65.7%	289	661	(372)	-56.3%
Total expenses from office and parking properties	$ 31,381	$ 31,173	$ 208	0.7%	$ 65,102	$ 61,032	$ 4,070	6.7%

Property operating expenses for same-store properties increased $1.6 million for the six months ended June 30, 2009, compared to the same period of 2008. The primary reason for the increase is due to increased real estate taxes and bad debt expense, offset by a decrease in personnel costs.

Depreciation and amortization expense attributable to office and parking properties decreased $723,000 for the three months ended June 30, 2009, compared to the same period for 2008 and is primarily attributable to the sale of two office buildings in 2009. Depreciation and amortization expense attributable to office and parking properties increased $1.6 million for the six months ended June 30, 2009, compared to the same period for 2008 and is primarily attributable to the change in depreciation expense associated with the acquisition of office properties in 2008, the sale of two office properties in 2009, and improvements to properties.

Hurricane Ike Impact. The Company had 13 wholly-owned properties and one jointly-owned property totaling 2.3 million square feet in Houston, Texas, which sustained some property damage from Hurricane Ike on September 13, 2008. The current estimate of damages for the 14 properties is approximately $6.5 million. The Company estimates that its insurance deductible related to these claims will be approximately $2.6 million. Approximately $370,000 is estimated to represent repair and clean up costs with the remainder representing capitalized costs. The Company expects to record a net gain of approximately $860,000 related to an involuntary conversion of the damaged assets. During the three months and six months ended June 30, 2009, the Company recorded the partial recognition of the gain on involuntary conversion of $279,000 and $742,000, respectively, related to Hurricane Ike. The Company expects to recognize the remaining gain on involuntary conversion of approximately $118,000 in subsequent quarters.

Share-Based Compensation Expense. Effective January 1, 2006, Parkway adopted FASB Statement No. 123(R), Share-Based Payment ("FAS 123(R)") using the modified-prospective transition method. In the past the Company had granted stock options for a fixed number of shares to employees and directors with an exercise price equal to or above the fair value of the shares at the date of grant. However, no stock options have been granted to employees since 2002 or to directors since 2003. Since 2003, Parkway has elected to grant restricted shares and deferred incentive share units instead of stock options. Therefore, the adoption of FAS 123(R) has not had a material impact on income from continuing operations, net income, cash flow from operations, cash flow from financing activities or basic and diluted earnings per share.

Compensation expense related to restricted shares and deferred incentive share units of $1.3 million and $918,000 was recognized for the six months ended June 30, 2009 and 2008, respectively. Total compensation expense related to nonvested awards not yet recognized was $3.6 million at June 30, 2009. Of the total not yet recognized at June 30, 2009, $2.2 million and $1.4 million are subject to service conditions and performance conditions, respectively. The weighted average period over which the expense subject to service and performance conditions is expected to be recognized is approximately two years. For the remainder of 2009, the Company expects to recognize approximately $1.3 million of additional compensation expense on nonvested awards subject to service and performance conditions.

During the six months ended June 30, 2009, a total of 30,416 restricted shares were issued to officers of the Company. These shares vested upon the achievement of the goals of the GEAR UP Plan. The compensation expense relating to the vesting of the GEAR UP performance-based restricted shares was recognized in 2008.

On February 3, 2009, the Board of Directors approved the grant of 120,000 restricted shares to officers of the Company. The shares were valued at $1.9 million and will vest subject to certain performance-based goals in 2009 at a rate of 30,000 shares per year over the four years following the grant date.

General and Administrative Expense. General and administrative expense decreased $723,000 and $1.4 million for the three months and six months ended June 30, 2009, respectively, compared to the same period of 2008 and is primarily attributable to decreased personnel costs.

Interest Expense. Interest expense, including amortization of deferred financing costs, decreased $922,000 and $2.0 million for the three months and six months ended June 30, 2009, compared to the same period of 2008 and is comprised of the following (in thousands):

	Three Months Ended June 30				Six Months Ended June 30			
	2009	2008	Increase (Decrease)	% Change	2009	2008	Increase (Decrease)	% Change
Interest expense:								
Mortgage interest expense	$ 11,913	$ 11,988	$ (75)	-0.6%	$ 23,810	$ 23,191	$ 619	2.7%
Bank line interest expense	1,404	2,953	(1,549)	-52.5%	3,066	6,047	(2,981)	-49.3%
Debt prepayment (income) expense	-	(388)	388	-100.0%	-	13	(13)	-100.0%
Mortgage loan cost amortization	477	269	208	77.3%	754	554	200	36.1%
Bank loan cost amortization	256	150	106	70.7%	471	305	166	54.4%
Total interest expense	$ 14,050	$ 14,972	$ (922)	-6.2%	$ 28,101	$ 30,110	$(2,009)	-6.7%

Mortgage interest expense increased $619,000 for the six months ended June 30, 2009, compared to the same period for 2008, and is due to the net effect of new loans placed in 2008 and 2009, the refinancing of one loan in 2008 and the early extinguishment of three mortgages in 2008 and one mortgage in 2009. The average interest rate on mortgage notes payable at June 30, 2009 and 2008 was 5.6% and 5.7%, respectively.

Bank line interest expense decreased $1.5 million and $3.0 million for the three months and six months ended June 30, 2009, respectively, compared to the same period of 2008, and is primarily due to a decrease in average borrowings of $78.3 million for the six months ended June 30, 2009 compared to the six months ended June 30, 2008, and a decrease in average interest rate from 5.2% for the six months ended June 30, 2008 to 3.8% for the six months ended June 30, 2009. The decrease in average borrowings is primarily attributable to proceeds received from the sale of Lynnwood Plaza in Hampton Roads, Virginia, the placement of a non-recourse first mortgage secured by two office buildings in Houston, Texas and the Company's common stock offering, offset by advances under the line of credit to make improvements to office properties and retire existing debt.

Discontinued Operations. Discontinued operations is comprised of the following for the three months and six months ending June 30, 2009 and 2008 (in thousands):

	Three Months Ended June 30				Six Months Ended June 30			
	2009	2008	Increase (Decrease)	% Change	2009	2008	Increase (Decrease)	% Change
Discontinued operations:								
Income from discontinued operations	$ 236	$ 732	$ (496)	-67.8%	$ 414	$ 1,283	$ (869)	-67.7%
Total discontinued operations	$ 236	$ 732	$ (496)	-67.8%	$ 414	$ 1,283	$ (869)	-67.7%

All current and prior period income from the following office property dispositions are included in discontinued operations for the three months and six months ending June 30, 2009 and 2008 (in thousands).

Office Property	Location	Square Feet	Date of Sale	Net Sales Proceeds	Net Book Value of Real Estate	Gain on Sale
Town Point Center	Norfolk, Virginia	131	07/15/08	$ 12,180	$ 10,621	$ 1,559
Wachovia Plaza	St. Petersburg, Florida	186	08/18/08	25,492	16,154	9,338
Capitol Center	Columbia, South Carolina	460	09/05/08	46,792	35,101	11,691
2008 Dispositions		777		$ 84,464	$ 61,876	$ 22,588

During 2009, Parkway classified Atrium at Stoneridge, a 108,000 square foot non-core office property in Columbia, South Carolina, as held for sale. A non-cash impairment loss of $727,000 was recorded during the fourth quarter of 2008 on this asset. At June 30, 2009, the Company's management believed the sale of this office property was probable and classified it as held for sale. In accordance with generally accepted accounting principles, all current and prior period income from Atrium at Stoneridge has been classified as discontinued operations. On July 8, 2009, the contract to sell Atrium at Stoneridge was terminated due to the inability of the proposed buyer to raise sufficient equity to complete the purchase. The Company has received $350,000 in non-refundable earnest money in connection with the proposed sale of this asset that will be recorded as other income in the third quarter of 2009.

Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued Standard of Financial Accounting Standards Board ("SFAS") No. 141(R), "Business Combinations" ("SFAS No. 141(R)"), which revised the previously issued SFAS No. 141 ("SFAS No. 141"). SFAS No. 141(R) retains the fundamental requirements of SFAS No. 141, but expands the scope to include all transactions and other events in which one entity obtains control over one or more other businesses. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS No. 141(R) requires that the acquisition related transaction costs be expensed as incurred. SFAS No. 141(R) also includes new disclosure requirements. At June 30, 2009, the application of SFAS No. 141(R) had not impacted the Company's overall financial position and results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51" ("SFAS No. 160"). SFAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 also amends certain of ARB No. 51's consolidation procedures for consistency with the requirements of SFAS No. 141(R). SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Upon adoption of SFAS No. 160, the Company reclassified its noncontrolling interest in real estate partnerships from minority interest to equity in the accompanying June 30, 2009 and December 31, 2008 consolidated balance sheets. In addition, the Company has separately disclosed the amount of consolidated net loss attributable to the Company and its noncontrolling interest in consolidated real estate partnerships in the accompanying June 30, 2009 and 2008 consolidated statements of income.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS No. 161"), which is an amendment of FASB Statement No. 133. SFAS No. 161 requires all entities with derivative instruments to disclose information regarding how and why the entity uses derivative instruments and how derivative instruments and related hedged items affect the entity's financial position, financial performance, and cash flows. The Statement is effective prospectively for periods beginning on or after November 15, 2008. The application of SFAS No. 161 had an immaterial impact on the Company's overall financial position and results of operations upon adoption January 1, 2009.

In November 2008, the Emerging Issues Task Force ("EITF") issued EITF 08-6, "Equity Method Investment Accounting Considerations," which applies to all investments accounted for under the equity method and clarifies the accounting for certain transactions and impairment considerations involving those investments. EITF 08-6 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. The adoption of EITF 08-6 on January 1, 2009, had an immaterial impact on the Company's overall financial position and results of operation.

In April 2009, the FASB issued FASB Staff Position ("FSP") FAS No. 107-1 and APB Opinion No. 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS No. 107-1 and APB Opinion No. 28-1"), which requires fair value disclosures for financial instruments that are not reflected in the Consolidated Balance Sheets at fair value. Prior to the issuance of FSP FAS No. 107-1 and APB Opinion No. 28-1, the fair values of those assets and liabilities were disclosed annually. Upon adoption of FSP FAS No. 107-1 and APB Opinion No. 28-1 during the second quarter of 2009, the Company is now required to disclose this information on a quarterly basis, providing quantitative and qualitative information about fair value estimates for all financial instruments not measured in the Consolidated Balance Sheet at fair value.

In June 2009, the FASB issued SFAS No. 165, "Subsequent Events" ("SFAS No. 165"), which establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The adoption of SFAS No. 165 during the second quarter of 2009 did not have a material impact on the Company's overall financial position and results of operations.

In June 2009, the FASB issued SFAS No. 166, "Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140" ("SFAS No. 166") which amends SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," by: eliminating the concept of a qualifying special-purpose entity ("QSPE"); clarifying and amending the derecognition criteria for a transfer to be accounted for as a sale; amending and clarifying the unit of account eligible for sale accounting; and requiring that a transferor initially measure at fair value and recognize all assets obtained (for example beneficial interests) and liabilities incurred as a result of a transfer of an entire financial asset or group of financial assets accounted for as a sale. Additionally, on and after the effective date, existing QSPEs (as defined under previous accounting standards) must be evaluated for consolidation by reporting entities in accordance with the applicable consolidation guidance. SFAS No. 166 requires enhanced disclosures about, among other things, a transferor's continuing involvement with transfers of financial assets accounted for as sales, the risks inherent in the transferred financial assets that have been retained, and the nature and financial effect of restrictions on the transferor's assets that continue to be reported in the Consolidated Balance Sheet. SFAS No. 166 will be effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. The Company is currently evaluating the impact of SFAS No. 166 on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS No. 167"). SFAS No 167 amends FIN 46(R), "Consolidation of Variable Interest Entities," and changes the consolidation guidance applicable to a variable interest entity ("VIE"). It also amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is, therefore, required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. The qualitative analysis will include, among other things, consideration of who has the power to direct the activities of the entity that most significantly impact the entity's economic performance and who has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. This standard also requires continuous reassessments of whether an enterprise is the primary beneficiary of a VIE. Previously, FIN 46(R) required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. QSPEs, which were previously exempt from the application of this standard, will be subject to the provisions of this standard when it becomes effective. SFAS No. 167 also requires enhanced disclosures about an enterprise's involvement with a VIE. SFAS No. 167 will be effective as of the beginning of interim and annual reporting periods that begin after November 15, 2009. The Company is currently evaluating the impact of SFAS No. 167 on the Company's consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a Replacement of FASB Statement No. 162" ("SFAS No. 168"), which will become the source of authoritative United States GAAP recognized by the FASB to be applied by nongovernmental entities. SFAS No. 168 brings together in one place all authoritative GAAP previously in levels A through D of the GAAP hierarchy that has been issued by a standard setter, for example, FASB Statements, FASB Interpretations, EITF Abstracts, FASB Staff Positions and AICPA Accounting and Auditing Guides. SFAS No. 168 will be effective as of the beginning of interim and annual reporting periods that begin after September 15,

2009. The Company is currently evaluating the impact of SFAS No. 168 on the Company's consolidated financial statements.

Liquidity and Capital Resources

Statement of Cash Flows. Cash and cash equivalents were $28.5 million and $15.3 million at June 30, 2009 and December 31, 2008, respectively. Cash flows provided by operating activities for the six months ended June 30, 2009 and 2008 were $37.7 million and $38.8 million, respectively. The decrease in cash flows from operating activities of $1.1 million is primarily attributable to the effect of the timing of receipt of revenues and payment of expenses.

Cash provided by investing activities was $1.4 million for the six months ended June 30, 2009 compared to cash used in investing activities of $260.0 million for the same period of 2008. The increase in cash provided by investing activities of $261.4 million is primarily due to the effect of office property purchases in 2008, the sale of two properties in 2009 and reduced costs related to development and improvements to real estate.

Cash used in financing activities was $25.9 million for the six months ended June 30, 2009 compared to cash provided by financing activities of $224.1 million for the same period of 2008. The decrease in cash provided by financing activities of $250.0 million is primarily due to additional mortgage placements in 2008 and contributions from noncontrolling interest partners to fund office property purchases in 2008, offset by proceeds received from the common stock offering in 2009.

Liquidity. The Company plans to continue pursuing the acquisition of additional investments that meet the Company's investment criteria and intends to use the Company's line of credit, proceeds from the refinancing of mortgages, proceeds from the sale of non-core assets and office properties, proceeds from the sale of portions of owned assets through joint ventures, possible sales of securities and cash balances to fund those acquisitions.

The Company's cash flows are exposed to interest rate changes primarily as a result of its line of credit used to maintain liquidity and fund capital expenditures and expansion of the Company's real estate investment portfolio and operations. The Company's interest rate risk management objective is to limit the impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives, the Company borrows at fixed rates, but also utilizes an unsecured revolving credit facility, an unsecured term loan and an unsecured line of credit ("the Company's line of credit").

The Company's line of credit allows Parkway to borrow up to a combined $311.0 million and it matures in April 2011. At June 30, 2009, the Company had a total of $100.0 million outstanding under its line of credit. At June 30, 2009, the following amounts were outstanding under the line of credit (in thousands):

Line of Credit	**Lender**	**Interest Rate**	**Maturity**	**Outstanding Balance**
$15.0 million unsecured line of credit (1)	PNC Bank	-	04/27/11	$ -
$236.0 million unsecured line of credit (2)	Wells Fargo	4.9%	04/27/11	40,000
$60.0 million unsecured term loan (3)	Wells Fargo	4.9%	04/27/11	60,000
		4.9%		$ 100,000

(1) The interest rate on the $15.0 million unsecured line of credit with PNC Bank is currently LIBOR plus 200 basis points. The Company pays fees on the unused portion of the line of 25 basis points.

(2) The $236.0 million unsecured line of credit is led by Wells Fargo and syndicated to eight other banks. The interest rate on the line of credit is currently LIBOR plus 130 basis points or the Prime interest rate plus 25 basis points. At June 30, 2009, all amounts outstanding under the line of credit are fixed by an interest rate swap agreement. The Company pays an annual administration fee of $35,000 and fees on the unused portion of the revolver ranging between 12.5 and 20 basis points based upon overall Company leverage, with the rate set at 20 basis points at June 30, 2009.

(3) The $60.0 million unsecured term loan is led by Wells Fargo and syndicated to eight other banks. The interest rate on the term loan is fixed by an interest rate swap agreement. Excluding the interest rate swap agreement, the interest rate on the term loan is LIBOR plus 130 basis points.

To protect against the potential for rapidly rising interest rates, the Company entered into interest rate swap agreements in 2008. The Company designated the swaps as hedges of the variable interest rates on the Company's borrowings under the Wells Fargo unsecured revolving credit facility and a portion of the debt placed on the Pinnacle at Jackson Place. These swaps are considered to be fully effective and changes in the fair value of the swaps are recognized in accumulated other comprehensive income. The Company's interest rate hedge contracts at June 30, 2009 and 2008 are summarized as follows (in thousands):

Type of Hedge	Balance Sheet Location	Notional Amount	Maturity Date	Reference Rate	Fixed Rate	Fair Market Value Asset (Liability) June 30 2009	Fair Market Value Asset (Liability) June 30 2008
Swap	Accounts payable and other liabilities	$ 30,000	08/31/08	1-month LIBOR	4.924%	$ -	$ (116)
Swap	Accounts payable and other liabilities	$ 40,000	12/31/08	1-month LIBOR	4.360%	-	(333)
Swap	Accounts payable and other liabilities	$ 20,000	12/31/08	1-month LIBOR	4.245%	-	(161)
Swap	Accounts payable and other liabilities	$100,000	03/31/11	1-month LIBOR	4.935%	(4,280)	589
Swap	Accounts payable and other liabilities	$ 23,500	12/01/14	1-month LIBOR	5.800%	(1,267)	492
						$ (5,547)	$ 471

At June 30, 2009, the Company had $859.7 million in mortgage notes payable with an average interest rate of 5.6% secured by office properties and $100.0 million drawn under the Company's line of credit. Parkway's pro rata share of unconsolidated joint venture debt was $9.7 million with an average interest rate of 5.1% at June 30, 2009.

The Company monitors the total debt to total asset value ratio as defined in the loan agreements for the Company's line of credit. In addition to the total debt to total asset value ratio, the Company also monitors interest, fixed charge and modified fixed charge coverage ratios, as well as the debt to EBITDA multiple. The interest coverage ratio is computed by comparing the cash interest accrued to earnings before interest, taxes, depreciation and amortization ("EBITDA"). The interest coverage ratio for the six months ended June 30, 2009 and 2008 was 2.75 and 2.35 times, respectively. The fixed charge coverage ratio is computed by comparing the cash interest accrued, principal payments made on mortgage loans and preferred dividends paid to EBITDA. The fixed charge coverage ratio for the six months ended June 30, 2009 and 2008 was 1.94 and 1.70 times, respectively. The modified fixed charge coverage ratio is computed by comparing the cash interest accrued and preferred dividends paid to EBITDA. This modified fixed charge coverage ratio for the six months ended June 30, 2009 and 2008 was 2.47 and 2.15 times, respectively. The debt to EBITDA multiple is computed by comparing Parkway's share of total debt to EBITDA for a trailing 12-month period. The debt to EBITDA multiple for the six months ended June 30, 2009 and 2008 was 6.53 and 7.77 times, respectively. Management believes the total debt to total asset value, interest coverage, fixed charge coverage, modified fixed charge coverage and the debt to EBITDA multiple provide useful information on total debt levels as well as the Company's ability to cover interest, principal and/or preferred dividend payments with current income.

The table below presents the principal payments due and weighted average interest rates for the mortgage notes payable at June 30, 2009 (in thousands).

	Total Mortgage Maturities	Balloon Payments	Recurring Principal Amortization
Schedule of Mortage Maturities by Years:			
2009*	$ 7,004	$ -	$ 7,004
2010	139,968	126,411	13,557
2011	112,942	102,694	10,248
2012	65,243	56,738	8,505
2013	8,650	-	8,650
2014	9,211	-	9,211
Thereafter	516,686	486,126	30,560
Total	$ 859,704	$ 771,969	$ 87,735
Fair value at 06/30/09	$ 782,158		

*Remaining six months

The Company presently has plans to make additional capital improvements at its office properties in 2009 of approximately $17.5 million. These expenditures include tenant improvements, leasing costs, capitalized acquisition costs and capitalized building improvements. Approximately $3.2 million of these improvements relate to upgrades on properties acquired in recent years that were anticipated at the time of purchase. All such improvements are expected to be financed by cash flow from the properties, capital expenditure escrow accounts, advances on the Company's line of credit and contributions from partners.

On February 20, 2009, the Company sold Lynnwood Plaza, an 82,000 square foot office property located in Hampton Roads, Virginia, for a gross sales price of $7.8 million. Parkway received net cash proceeds from the sale of $7.1 million, which were used to reduce amounts outstanding under the Company's line of credit.

On February 27, 2009, the Company paid off the mortgage note payable secured by 1717 St. James, 5300 Memorial and Town and Country office buildings in Houston, Texas, with a total principal balance of $21.8 million with advances under the Company's line of credit. The mortgage had an interest rate of 4.83% and was scheduled to mature on March 1, 2009. The mortgage represented the Company's only outstanding maturity in 2009.

On April 28, 2009, the Company sold 6.25 million shares of common stock to UBS Investment Bank at a gross offering price of $13.71 per share and a net price of $13.56 per share. The Company used the net proceeds of approximately $84.5 million to reduce outstanding borrowings under the Company's line of credit and for general corporate purposes.

On May 4, 2009, the Company placed an $18.5 million seven-year non-recourse first mortgage with a fixed interest rate of 7.6% per annum, and the proceeds were used to reduce borrowings under the line of credit. The mortgage is secured by two office buildings in Houston, Texas.

On June 1, 2009, the Company sold 1717 St. James Place, a 110,000 square foot office property located in Houston, Texas, for a gross sales price of $8.7 million, and Parkway received net cash proceeds from the sale of $8.4 million.

The Company anticipates that its current cash balance, operating cash flows, contributions from partners and borrowings (including borrowings under the working capital line of credit) will be adequate to pay the Company's (i) operating and administrative expenses, (ii) debt service obligations, (iii) distributions to shareholders, (iv) capital improvements, and (v) normal repair and maintenance expenses at its properties, both in the short and long term. In addition, the Company may use proceeds from sales of assets, sales of equity securities and borrowings to fund property acquisitions and pay debts as they mature.

Contractual Obligations

See information appearing under the caption "Financial Condition - Notes Payable to Banks and Mortgage Notes Payable" in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations for a discussion of changes in long-term debt since December 31, 2008.

Funds From Operations

Management believes that funds from operations available to common shareholders ("FFO") is an appropriate measure of performance for equity REITs and computes this measure in accordance with the National Association of Real Estate Investment Trusts' ("NAREIT") definition of FFO. Funds from operations is defined by NAREIT as net income (computed in accordance with GAAP), excluding gains or losses from sales of property and extraordinary items under GAAP, plus depreciation and amortization, and after adjustments to derive the Company's pro rata share of FFO of consolidated and unconsolidated joint ventures. Further, the Company does not adjust FFO to eliminate the effects of non-recurring charges. The Company believes that FFO is a meaningful supplemental measure of its operating performance because historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time, as reflected through depreciation and amortization expenses. However, since real estate values have historically risen or fallen with market and other conditions, many industry investors and analysts have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient. Thus, NAREIT created FFO as a supplemental measure of operating performance for real estate investment trusts that excludes historical cost depreciation and amortization, among other items, from net income, as defined by GAAP. The Company believes that the use of FFO, combined with the required GAAP presentations, has been beneficial in improving the understanding of operating results of real estate investment trusts among the investing public and making comparisons of operating results among such companies more meaningful. FFO as reported by Parkway may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition. Funds from operations do not represent cash generated from operating activities in accordance with accounting principles generally accepted in the United States and is not an indication of cash available to fund cash needs. Funds from operations should not be considered an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flow as a measure of liquidity.

The following table presents a reconciliation of the Company's net income to FFO for the three months and six months ended June 30, 2009 and 2008 (in thousands):

	Three Months Ended June 30		Six Months Ended June 30	
	2009	**2008**	**2009**	**2008**
Net income (loss)	$ 920	$ (1,936)	$ 131	$ (4,531)
Adjustments to net income (loss):				
Preferred dividends	(1,200)	(1,200)	(2,400)	(2,400)
Depreciation and amortization	21,720	22,443	45,276	43,649
Depreciation and amortization - discontinued operations	-	995	24	1,957
Noncontrolling interest depreciation and amortization	(4,316)	(4,898)	(10,314)	(9,108)
Adjustments for unconsolidated joint ventures	213	179	409	355
Gain on sale of real estate	(540)	-	(470)	-
Funds from operations available to common shareholders	$ 16,797	$ 15,583	$ 32,656	$ 29,922

Inflation

Inflation has not had a significant impact on the Company because of the relatively low inflation rate in the Company's geographic areas of operation. Additionally, most of the leases require the customers to pay their pro rata share of operating expenses, including common area maintenance, real estate taxes, utilities and insurance, thereby reducing the Company's exposure to increases in operating expenses resulting from inflation. The Company's leases typically have three to seven year terms, which may enable the Company to replace existing leases with new leases at market base rent, which may be higher or lower than the existing lease rate.

Forward-Looking Statements

In addition to historical information, certain sections of this Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, such as those that are not in the present or past tense, that discuss the Company's beliefs, expectations or intentions or those pertaining to the Company's capital resources, profitability and portfolio performance and estimates of market rental rates. Forward-looking statements involve numerous risks and uncertainties. The following factors, among others discussed herein and in the Company's filings under the Securities Exchange Act of 1934, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements: defaults or non-renewal of leases, increased interest rates and operating costs, failure to obtain necessary outside financing, difficulties in identifying properties to acquire and in effecting acquisitions, the failure to acquire or sell properties as and when anticipated, failure to qualify as a real estate investment trust under the Internal Revenue Code of 1986, as amended, environmental uncertainties, risks related to natural disasters, financial market fluctuations, changes in real estate and zoning laws and increases in real property tax rates. The success of the Company also depends upon the trends of the economy, including interest rates, income tax laws, governmental regulation, legislation, population changes and those risk factors discussed elsewhere in this Form 10-Q and in the Company's filings under the Securities Exchange Act of 1934. Readers are cautioned not to place undue reliance on forward-looking statements, which reflect management's analysis only as the date hereof. The Company assumes no obligation to update forward-looking statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

See information appearing under the caption "Liquidity" in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that at the end of the Company's most recent fiscal quarter, the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

During the period covered by this report, the Company reviewed its internal controls, and there have been no changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the risk factors previously disclosed in Parkway's Form 10-K for the year ended December 31, 2008. For a full description of these risk factors, please refer to Item 1A-Risk Factors, in the 2008 Annual Report on Form 10-K.

Item 4. Submission of Matters to a Vote of Security Holders

On May 14, 2009, the Company held its Annual Meeting of Stockholders. At the Annual Meeting, the following seven directors were elected to serve until the next Annual Meeting.

	SHARES OF COMMON STOCK	
	FOR	WITHHOLD AUTHORITY
Daniel P. Friedman	13,741,027	341,333
Roger P. Friou	13,411,531	670,828
Michael J. Lipsey	13,313,739	768,621
Steven G. Rogers	13,544,569	537,790
Leland R. Speed	13,556,811	525,548
Troy A. Stovall	13,498,229	584,131
Lenore M. Sullivan	13,507,503	574,856

In addition, the following items were also approved at the May 14, 2009 Annual Meeting:

Proposal to consider and ratify the appointment of KPMG LLP as independent accountants of the Company for the 2009 fiscal year.

	SHARES OF COMMON STOCK
FOR	13,488,324
AGAINST	518,711
ABSTAIN	3,865

Item 6. Exhibits

10.1* Amendment to Form of Incentive Restricted Share Agreement for 2009 Long-Term Equity Compensation Program.

10.2* Agreement for Parkway Properties, Inc. Deferred Compensation Plan, as amended.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Identifies a compensatory plan required to be filed.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DATE: August 6, 2009

PARKWAY PROPERTIES, INC.

BY: /s/ Mandy M. Pope
Mandy M. Pope, CPA
Senior Vice President, Controller and
Chief Accounting Officer